ORIGINAL

√L

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
By ______ Deputy

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

SECURITIES AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	
v.	§	**COMPLAINT**
	§	
STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT	§ § § § § §	**3-09CV0298-L**
	§	
Defendants.	§	

Plaintiff Securities and Exchange Commission alleges:

SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JURISDICTION AND VENUE

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

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

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

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

DEFENDANTS

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

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

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

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

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

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

STATEMENT OF FACTS AND ALLEGATIONS
RELEVANT TO ALL CAUSES OF ACTION

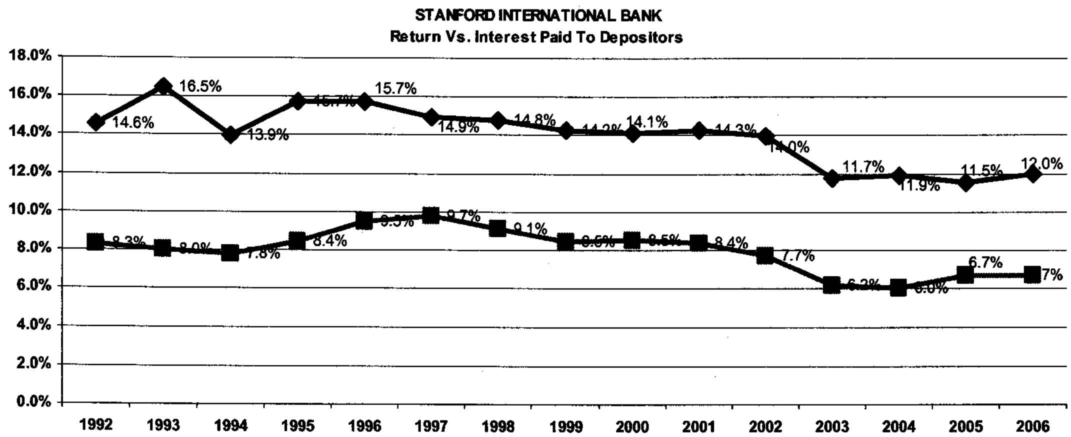
A. The Stanford International Bank

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

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

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

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



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

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

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

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

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

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

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

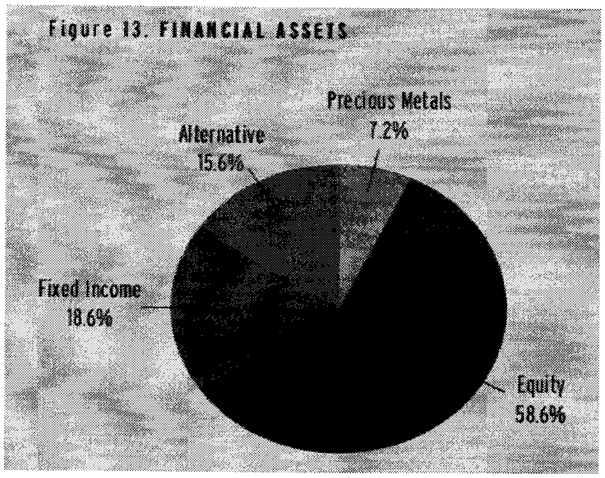
monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). As of December 2008, Tier 1 represented approximately 9% ($800 million) of the Bank's portfolio. Tier 2, prior to the Bank's decision to liquidate $250 million of investments in late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

B. SIB's Fraudulent Sale of CDs

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. <u>From at least 2004, SCM misrepresented SAS performance results.</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

Calendar Year Return
As of March 2008

	YTD	2007	2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.44%	12.40%	14.68%	8.82%	15.15%	32.54%	-3.33%	4.32%	18.04%	22.59%
S&P 500	-9.44%	5.49%	15.79%	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%	21.04%

Annualized Returns
(not annualized if less than 1 year)

	YTD	1 year	3 years	5 years	7 years	Since inception
SAS Growth	-7.44%	0.80%	9.36%	15.31%	11.03%	12.30%
S&P 500	-9.44%	-5.08%	5.85%	11.32%	3.70%	2.45%

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

CAUSES OF ACTION

FIRST CLAIM
AS TO ALL DEFENDANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

THIRD CLAIM
AS TO ALL DEFENDANTS

Violations of Section 17(a) of the Securities Act

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

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

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

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

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

FOURTH CLAIM
AS TO STANFORD, SGC, AND STANFORD CAPITAL

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

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

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

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

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

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

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

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

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

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

SIXTH CLAIM
AS TO SIB AND SGC

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

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

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

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

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

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

RELIEF REQUESTED

Plaintiff Commission respectfully requests that this Court:

I.

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

II.

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

III.

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

IV.

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

V.

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

VI.

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

VII.

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

VIII.

Order civil penalties against Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(e) of the Investment Company Act [15 U.S.C. § 80a-41(e)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)] for their securities law violations.

IX.

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

X.

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

For the Commission, by its attorneys:

February 16, 2009

Respectfully submitted,

David Reece

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

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

ORIGINAL

CIVIL COVER SHEET

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

3-09CV0298-L

I.(a) PLAINTIFF

SECURITIES AND EXCHANGE COMMISSION

DEFENDANTS

STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF________
(EXCEPT IN U.S. PLAINTIFF CASES)

County of Residence of First Listed Defendant: St. John's Antigua, West Indies
(IN U.S. PLAINTIFF CASES ONLY)
NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

RECEIVED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

(c) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)
David B. Reece
U.S. Securities & Exchange Commission, Burnett Plaza, Ste. 1900,
801 Cherry Street, Unit #18, Fort Worth, TX 76102-6882
(817) 978-6476

ATTORNEYS (If known):

II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY)

☒ 1 U.S. Government Plaintiff
☐ 3 Federal Question (U.S. Government Not a Party)
☐ 2 U.S. Government Defendant
☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only) (PLACE AN "X" IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)

	PTF	PTF		PTF	PTF
Citizen of This State	☐ 1	☐ 1	Incorporated or Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated and Principal Place of Business in Another State	☐ 5	☐ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT (*PLACE AN "X" IN ONE BOX ONLY*)

CONTRACT
☐ 110 Insurance
☐ 120 Marine
☐ 130 Miller Act
☐ 140 Negotiable Instrument
☐ 150 Recovery of Overpayment & Enforcement of Judgment
☐ 151 Medicare Act
☐ 152 Recovery of Defaulted Student Loans (Excl. Veterans)
☐ 153 Recovery OF Overpayment of Veteran's Benefits
☐ 160 Stockholders' Suits
☐ 190 Other Contract
☐ 195 Contract Product Liability

REAL PROPERTY
☐ 210 Land Condemnation
☐ 220 Foreclosure
☐ 230 Rent Lease & Ejectment
☐ 240 Torts to Land
☐ 245 Tort Product Liability
☐ 290 All Other Real Property

TORTS

PERSONAL INJURY
☐ 310 Airplane
☐ 315 Airplane Product Liability
☐ 320 Assault, Libel & Slander
☐ 330 Federal Employers' Liability
☐ 340 Marine
☐ 345 Marine Product Liability
☐ 350 Motor Vehicle
☐ 355 Motor Vehicle Product Liability
☐ 360 Other Personal Injury

PERSONAL INJURY
☐ 362 Personal Injury - Med. Malpractice
☐ 365 Personal Injury - Product Liability
☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
☐ 370 Other Fraud
☐ 371 Truth in Lending
☐ 380 Other Personal Property Damage
☐ 385 Property Damage Product Liability

CIVIL RIGHTS
☐ 441 Voting
☐ 442 Employment
☐ 443 Housing/ Accommodations
☐ 444 Welfare
☐ 440 Other Civil Rights

PRISONER PETITIONS
☐ 510 Motions to Vacate Sentence
Habeas Corpus:
☐ 530 General
☐ 535 Death Penalty
☐ 540 Mandamus & Other
☐ 550 Civil Rights

FORFEITURE/PENALTY
☐ 610 Agriculture
☐ 620 Other Food & Drug
☐ 625 Drug Related Seizure of Property 21 USC 881
☐ 630 Liquor Laws
☐ 640 R.R. & Truck
☐ 650 Airline Regs.
☐ 660 Occupational Safety/Health
☐ 690 Other

LABOR
☐ 710 Fair Labor Standards Act
☐ 720 Labor/Mgmt. Relations
☐ 730 Labor/Mgmt. Reporting & Disclosure Act
☐ 740 Railway Labor Act
☐ 790 Other Labor Litigation
☐ 791 Empl. Ret. Inc. Security Act

BANKRUPTCY
☐ 422 Appeal 28 USC 156
☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS
☐ 820 Copy rights
☐ 830 Patient
☐ 840 Trademark

SOCIAL SECURITY
☐ 861 HIA (1395FF)
☐ 862 Black Lung (923)
☐ 863 DIWC/DIWW (405(g))
☐ 864 SSID Title XVI
☐ 865 RSI (405(g))

FEDERAL TAX SUITS
☐ 870 Taxes (U.S. Plaintiff or Defendant)
☐ 871 IRS - Third Party 26 USC 7609

OTHER STATUTES
☐ 400 State Reapprotionment
☐ 410 Antitrust
☐ 430 Banks and Banking
☐ 450 Commerce/ICC Rates/etc.
☐ 460 Deportation
☐ 470 Racketeer Influenced and Corrupt Organizations
☐ 810 Selective Service
☒ 850 Securities Commodities/ Exchange
☐ 875 Customer Challenge 12 USC 3410
☐ 891 Agricultural Acts
☐ 892 Economic Stabilization Act
☐ 893 Environmental Matters
☐ 894 Energy Allocation Act
☐ 895 Freedom of Information Act
☐ 900 Appeal of Fee Determination Under Equal Access to Justice
☐ 950 Constitutionality of State Statutes
☐ 890 Other Statutory Actions

V. ORIGIN (*PLACE AN "X" IN ONE BOX ONLY*)

☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened

VI. CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE BRIEF STATEMENT OF CAUSE. DO NOT CITE JURISDICTIONSL STATUTUES UNLESS DIVERSITY.)

Section 17(a) of the Securities Act of 1933, [15 U.S.C. §77q(a)], Section 10(b) of the Securities Exchange Act of 1934, [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5], Sections 206(1) and 206(2) of the Investment Advisors Act of 1940, [15 U.S.C. §80b-6(1) and §80b-6(2)] and Section 7(d) of the Investment Company Act of 1940 [15 U.S.C. §80a-7(d)].

VII. REQUESTED IN COMPLAINT: CHECK IF THIS IS A CLASS ACTION ☐ UNDER F.R.C.P. 23
26 USC 7609
DEMAND $
CHECK YES only if demanded in complaint:
JURY DEMAND ☐ YES ☒ NO

VIII. RELATED CASE(S) (See Instructions):
IF ANY JUDGE ________ DOCKET NUMBER ________

DATE 2/16/09
SIGNATURE OF ATTORNEY OF RECORD [signature]

FOR OFFICE USE ONLY
Receipt #______ AMOUNT ______ APPLYING IFP ______ JUDGE ______ MAG. JUDGE ______

√L

ORIGINAL

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
By ____ Deputy

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

SECURITIES AND EXCHANGE COMMISSION,	§	
Plaintiff,	§	
v.	§	**COMPLAINT**
STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT	§	**3-09CV0298-L** 1:09MC 2-JAD
Defendants.	§	

Plaintiff Securities and Exchange Commission alleges:

SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JURISDICTION AND VENUE

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

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

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

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

DEFENDANTS

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

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

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

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

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

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

STATEMENT OF FACTS AND ALLEGATIONS
RELEVANT TO ALL CAUSES OF ACTION

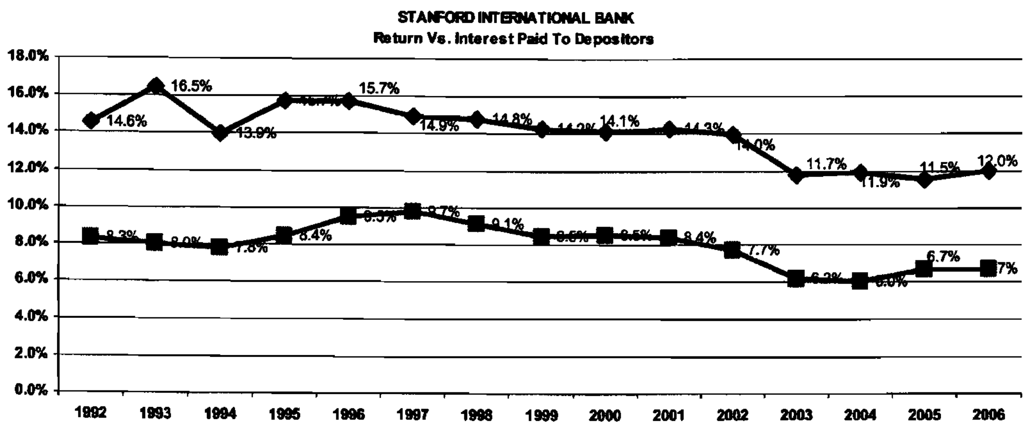
A. The Stanford International Bank

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

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

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

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



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

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

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

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

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

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

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

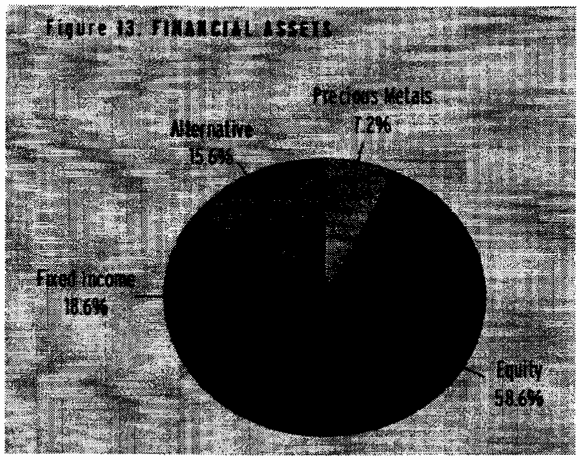
monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). As of December 2008, Tier 1 represented approximately 9% ($800 million) of the Bank's portfolio. Tier 2, prior to the Bank's decision to liquidate $250 million of investments in late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

B. SIB's Fraudulent Sale of CDs

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. <u>From at least 2004, SCM misrepresented SAS performance results.</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

Calendar Year Return
As of March 2008

	YTD	2007	2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.44%	12.40%	14.68%	8.82%	16.19%	32.84%	-3.33%	4.32%	18.04%	22.59%
S&P 500	-9.44%	5.49%	15.79%	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%	21.04%

Annualized Returns
(not annualized if less than 1 year)

	YTD	1 year	3 years	5 years	7 years	Since inception
SAS Growth	-7.44%	0.80%	9.36%	15.31%	11.03%	12.30%
S&P 500	-9.44%	-5.08%	5.85%	11.32%	3.70%	2.45%

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

CAUSES OF ACTION

FIRST CLAIM
AS TO ALL DEFENDANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

THIRD CLAIM
AS TO ALL DEFENDANTS

Violations of Section 17(a) of the Securities Act

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

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

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

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

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

FOURTH CLAIM
AS TO STANFORD, SGC, AND STANFORD CAPITAL

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

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

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

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

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

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

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

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

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

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

SIXTH CLAIM
AS TO SIB AND SGC

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

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

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

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

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

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

RELIEF REQUESTED

Plaintiff Commission respectfully requests that this Court:

I.

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

II.

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

III.

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

IV.

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

V.

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

VI.

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

VII.

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

VIII.

Order civil penalties against Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], Section 41(e) of the Investment Company Act [15 U.S.C. § 80a-41(e)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)] for their securities law violations.

IX.

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

X.

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

For the Commission, by its attorneys:

February 16, 2009

Respectfully submitted,

David B. Reece

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

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

JS 44
(Rev. 3/99)

ORIGINAL

CIVIL COVER SHEET

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

3-09CV0298-L

I.(a) PLAINTIFF

SECURITIES AND EXCHANGE COMMISSION

DEFENDANTS

STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT

RECEIVED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

(b) COUNTY OF RESIDENCE OF FIRST LISTED PLAINTIFF ________
(EXCEPT IN U.S. PLAINTIFF CASES)

County of Residence of First Listed Defendant: St. John's Antigua, West Indies
(IN U.S. PLAINTIFF CASES ONLY)
NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

(c) ATTORNEY (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER)
David B. Reece
U.S. Securities & Exchange Commission, Burnett Plaza, Ste. 1900,
801 Cherry Street, Unit #18, Fort Worth, TX 76102-6882
(817) 978-6476

ATTORNEYS (If known):

II. BASIS OF JURISDICTION (PLACE AN "X" IN ONE BOX ONLY)

- ☒ 1 U.S. Government Plaintiff
- ☐ 2 U.S. Government Defendant
- ☐ 3 Federal Question (U.S. Government Not a Party)
- ☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (For Diversity Cases Only) (PLACE AN "X" IN ONE BOX FOR PLAINTIFF AND ONE BOX FOR DEFENDANT)

	PTF	DEF		PTF	DEF
Citizen of This State	☐ 1	☐ 1	Incorporated or Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated and Principal Place of Business in Another State	☐ 5	☐ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT (*PLACE AN "X" IN ONE BOX ONLY*)

CONTRACT
- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excl. Veterans)
- ☐ 153 Recovery OF Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☐ 190 Other Contract
- ☐ 195 Contract Product Liability

REAL PROPERTY
- ☐ 210 Land Condemnation
- ☐ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

TORTS

PERSONAL INJURY
- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury

PERSONAL INJURY
- ☐ 362 Personal Injury - Med. Malpractice
- ☐ 365 Personal Injury - Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

CIVIL RIGHTS
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 444 Welfare
- ☐ 440 Other Civil Rights

PRISONER PETITIONS
- ☐ 510 Motions to Vacate Sentence

Habeas Corpus:
- ☐ 530 General
- ☐ 535 Death Penalty
- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights

FORFEITURE/PENALTY
- ☐ 610 Agriculture
- ☐ 620 Other Food & Drug
- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 630 Liquor Laws
- ☐ 640 R.R. & Truck
- ☐ 650 Airline Regs.
- ☐ 660 Occupational Safety/Health
- ☐ 690 Other

LABOR
- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Mgmt. Relations
- ☐ 730 Labor/Mgmt. Reporting & Disclosure Act
- ☐ 740 Railway Labor Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Empl. Ret. Inc. Security Act

BANKRUPTCY
- ☐ 422 Appeal 28 USC 156
- ☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS
- ☐ 820 Copy rights
- ☐ 830 Patient
- ☐ 840 Trademark

SOCIAL SECURITY
- ☐ 861 HIA (1395FF)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS
- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS - Third Party 26 USC 7609

OTHER STATUTES
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce/ICC Rates/etc.
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizations
- ☐ 810 Selective Service
- ☒ 850 Securities Commodities/ Exchange
- ☐ 875 Customer Challenge 12 USC 3410
- ☐ 891 Agricultural Acts
- ☐ 892 Economic Stabilization Act
- ☐ 893 Environmental Matters
- ☐ 894 Energy Allocation Act
- ☐ 895 Freedom of Information Act
- ☐ 900 Appeal of Fee Determination Under Equal Access to Justice
- ☐ 950 Constitutionality of State Statutes
- ☐ 890 Other Statutory Actions

V. ORIGIN (*PLACE AN "X" IN ONE BOX ONLY*)

- ☒ 1 Original Proceeding
- ☐ 2 Removed from State Court
- ☐ 3 Remanded from Appellate Court
- ☐ 4 Reinstated or Reopened

VI. CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE BRIEF STATEMENT OF CAUSE. DO NOT CITE JURISDICTIONSL STATUTUES UNLESS DIVERSITY.)

Section 17(a) of the Securities Act of 1933, [15 U.S.C. §77q(a)], Section 10(b) of the Securities Exchange Act of 1934, [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5], Sections 206(1) and 206(2) of the Investment Advisors Act of 1940, [15 U.S.C. §80b-6(1) and §80b-6(2)] and Section 7(d) of the Investment Company Act of 1940 [15 U.S.C. §80a-7(d)].

VII. REQUESTED IN COMPLAINT:
26 USC 7609

CHECK IF THIS IS A CLASS ACTION ☐ UNDER F.R.C.P. 23

DEMAND $

CHECK YES only if demanded in complaint:
JURY DEMAND ☐ YES ☒ NO

VIII. RELATED CASE(S) (See Instructions):
IF ANY
JUDGE ________ DOCKET NUMBER ________

DATE 2/16/09

SIGNATURE OF ATTORNEY OF RECORD
[signature]

FOR OFFICE USE ONLY
Receipt #________ AMOUNT ________ APPLYING IFP ________ JUDGE ________ MAG. JUDGE ________

ORIGINAL

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
By ______ Deputy

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

SECURITIES AND EXCHANGE COMMISSION, §
§
Plaintiff, §
§
v. § Case No.: 1:09MC2-JAD
§
STANFORD INTERNATIONAL BANK, LTD., § 3-09CV0298-L
STANFORD GROUP COMPANY, §
STANFORD CAPITAL MANAGEMENT, LLC, §
R. ALLEN STANFORD, JAMES M. DAVIS, and §
LAURA PENDERGEST-HOLT §
§
Defendants. §

TEMPORARY RESTRAINING ORDER, ORDER FREEZING ASSETS, ORDER REQUIRING AN ACCOUNTING, ORDER REQUIRING PRESERVATION OF DOCUMENTS, AND ORDER AUTHORIZING EXPEDITED DISCOVERY

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

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

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

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

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

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

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

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

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

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

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

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

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

IT IS THEREFORE ORDERED THAT:

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

(1) employing any device, scheme, or artifice to defraud; or

(2) obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statement(s) made, in the light of the circumstances under which they were made, not misleading; or

(3) engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser;

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

(1) to use or employ any manipulative or deceptive device or contrivance in contravention of the rules and regulations promulgated by the Commission;

(2) to employ any device, scheme, or artifice to defraud;

(3) to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or

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

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

(1) employing any device, scheme, or artifice to defraud any client or prospective client; or

(2) engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;

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

(1) acting as an investment company, not organized or otherwise created under the laws of the United States or of a State, and offering for sale, selling, or delivering after sale, in connection with a public offering, any security of which such company is the issuer; or

(2) acting as a depositor of, trustee of, or underwriter for such a company; unless

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

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

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

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

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

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

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

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

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

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

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

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

B. All parties shall comply with the provisions of Fed. R. Civ. P. 45 regarding issuance and service of subpoenas, unless the person designated to provide testimony or to produce documents and things agrees to provide the testimony or to produce the documents or things without the issuance of a subpoena or to do so at a place other than one at which testimony or production can be compelled.

C. Any party may notice and conduct depositions upon oral examination subject to minimum notice of seventy-two (72) hours.

D. All parties shall produce for inspection and copying all documents and things that are requested within seventy-two (72) hours of service of a written request for those documents and things.

E. All parties shall serve written responses to written interrogatories within seventy-two (72) hours after service of the interrogatories.

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

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

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

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

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

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

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

16. Defendants shall serve, by the most expeditious means possible, including e-mail and facsimile, any papers in opposition to the Commission's Motion for Preliminary Injunction and for other relief no later than 72 hours before any scheduled hearing on the Motion for Preliminary Injunction. The Commission shall serve any reply at least 24 hours before any hearing on the Motion for Preliminary Injunction by the most expeditious means available, including facsimile.

17. Unless extended by agreement of the parties, the portion of this order that constitutes a temporary restraining order shall expire at 5 o'clock p.m. on the 2d day of March 2009 or at such later date as may be ordered by this Court. All other provisions of this order shall remain in full force and effect until specifically modified by further order of this Court. Unless the Court rules upon the Commission's Motion for Preliminary Injunction pursuant to Fed. R. Civ. P. 43(e), adjudication of the Commission's Motion for Preliminary Injunction shall take place at the United States Courthouse, Northern District of Texas Dallas, Texas, on the 2d day of March, 2009, at 10 o'clock a.m. 1100 Commerce Street Dallas Texas 75242 (Earl Cabell Bldg).

EXECUTED AND ENTERED at 11:40 o'clock a.m. CST this 16th day of February 2009.

UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF LOUISIANA

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

CLASS ACTION COMPLAINT

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

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

THE PARTIES

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

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

JURISDICTION AND VENUE

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

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

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

INTRODUCTION

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

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

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

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

FACTS RELEVANT TO PLAINTIFF

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

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

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

FACTS RELEVANT TO DEFENDANTS

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

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

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

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

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

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

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

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

of CDs, and in its latest report of December 2008, SIB reports over 30,000 clients, representing $8.5 billion in total assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CLASS ACTION ALLEGATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) whether Defendants violated the provisions of the Securities Exchange Act Section 12 by knowingly or with severe recklessness communicating material misstatements and/or omissions that were disseminated by use of the means and instruments of transportation or communication in interstate commerce or of the mails; and,

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

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

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

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

CAUSES OF ACTION
FIRST CLAIM

FIRST CLAIM FOR RELIEF
(Violations of § 10(b) of the Securities and Exchange Act and Rule 10-b5)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

67. Plaintiff prays for a trial by jury.

PRAYER FOR RELIEF

Wherefore, Plaintiff prays for judgment as follows:

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

2. For an award of all remedies and damages incurred as a consequence of the liability of the Defendants, together with legal interest thereon from the date of judicial demand until paid;

3. For disgorgement and restitution of all earnings, profits, compensation and benefits received by Defendants as a result of their unlawful acts and practices;

4. For an award of a reasonable sum for attorney fees;

5. For the costs of these proceedings;

6. For such other and further relief as this Court may deem just and proper; and,

7. For trial by jury.

BY ATTORNEYS:

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

JS 44 (Rev. 12/07)

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I. (a) PLAINTIFFS

SANDRA ALLEN, ON BEHALF OF HERSELF AND ALL OTHERS SIMILARLY SITUATED,

(b) County of Residence of First Listed Plaintiff EAST BATON ROUGE
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorney's (Firm Name, Address, and Telephone Number)
Christopher L Coffin, Patrick W. Pendley, Stan P. Baudin, Nicholas R. Rockforte; Pendley, Baudin & Coffin, LLP; P.O. Drawer 71, 24110 Eden Street, Plaquemine, LA 70765; (225) 687-6396

DEFENDANTS

Stanford Group Company, Stanford Financial Group, Stanford International Bank LTD., Stanford Holdings, Inc., Stanford Capital Management, LLC, R. Allen Stanford, James Davis, and Laura Holt

County of Residence of First Listed Defendant ______
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE LAND INVOLVED.

Attorneys (If Known)

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- ☐ 1 U.S. Government Plaintiff
- ☒ 3 Federal Question (U.S. Government Not a Party)
- ☐ 2 U.S. Government Defendant
- ☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant) (For Diversity Cases Only)

	PTF	DEF		PTF	DEF
Citizen of This State	☐ 1	☐ 1	Incorporated *or* Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated *and* Principal Place of Business In Another State	☐ 5	☐ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT (Place an "X" in One Box Only)

CONTRACT
- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excl. Veterans)
- ☐ 153 Recovery of Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☐ 190 Other Contract
- ☐ 195 Contract Product Liability
- ☐ 196 Franchise

REAL PROPERTY
- ☐ 210 Land Condemnation
- ☐ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

TORTS

PERSONAL INJURY
- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury

PERSONAL INJURY
- ☐ 362 Personal Injury - Med. Malpractice
- ☐ 365 Personal Injury - Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

CIVIL RIGHTS
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 444 Welfare
- ☐ 445 Amer. w/Disabilities - Employment
- ☐ 446 Amer. w/Disabilities - Other
- ☐ 440 Other Civil Rights

PRISONER PETITIONS
- ☐ 510 Motions to Vacate Sentence

Habeas Corpus:
- ☐ 530 General
- ☐ 535 Death Penalty
- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights
- ☐ 555 Prison Condition

FORFEITURE/PENALTY
- ☐ 610 Agriculture
- ☐ 620 Other Food & Drug
- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 630 Liquor Laws
- ☐ 640 R.R. & Truck
- ☐ 650 Airline Regs.
- ☐ 660 Occupational Safety/Health
- ☐ 690 Other

LABOR
- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Mgmt. Relations
- ☐ 730 Labor/Mgmt.Reporting & Disclosure Act
- ☐ 740 Railway Labor Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Empl. Ret. Inc. Security Act

IMMIGRATION
- ☐ 462 Naturalization Application
- ☐ 463 Habeas Corpus - Alien Detainee
- ☐ 465 Other Immigration Actions

BANKRUPTCY
- ☐ 422 Appeal 28 USC 158
- ☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS
- ☐ 820 Copyrights
- ☐ 830 Patent
- ☐ 840 Trademark

SOCIAL SECURITY
- ☐ 861 HIA (1395ff)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS
- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS—Third Party 26 USC 7609

OTHER STATUTES
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizations
- ☐ 480 Consumer Credit
- ☐ 490 Cable/Sat TV
- ☐ 810 Selective Service
- ☒ 850 Securities/Commodities/ Exchange
- ☐ 875 Customer Challenge 12 USC 3410
- ☐ 890 Other Statutory Actions
- ☐ 891 Agricultural Acts
- ☐ 892 Economic Stabilization Act
- ☐ 893 Environmental Matters
- ☐ 894 Energy Allocation Act
- ☐ 895 Freedom of Information Act
- ☐ 900Appeal of Fee Determination Under Equal Access to Justice
- ☐ 950 Constitutionality of State Statutes

V. ORIGIN (Place an "X" in One Box Only)

☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened ☐ 5 Transferred from another district (specify) ☐ 6 Multidistrict Litigation ☐ 7 Appeal to District Judge from Magistrate Judgment

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (**Do not cite jurisdictional statutes unless diversity**):
15 U.S.C. 77b; 15 U.S.C. 77v(a); 15 U.S.C. 78a; 15 U.S.C. 78a

Brief description of cause:
Defendants participated in fraudulent investment scheme in violation of SEC regulations & defrauded plaintiffs

VII. REQUESTED IN COMPLAINT:

☑ CHECK IF THIS IS A **CLASS ACTION** UNDER F.R.C.P. 23

DEMAND $ 8,000,000,000.00

CHECK YES only if demanded in complaint:
JURY DEMAND: ☑ Yes ☐ No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE ______ DOCKET NUMBER ______

DATE
02/20/2009

SIGNATURE OF ATTORNEY OF RECORD
Patw. Pendley

FOR OFFICE USE ONLY

RECEIPT # ______ AMOUNT ______ APPLYING IFP ______ JUDGE ______ MAG. JUDGE ______

UNITED STATES DISTRICT COURT
for the
Middle District of Louisiana

Sandra Allen, on behalf of herself and all others	)	
Plaintiff	)	
v.	)	Civil Action No.
Stanford Group Company, et al.	)	
Defendant	)	

SUMMONS IN A CIVIL ACTION

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

OR WHEREVER FOUND

A lawsuit has been filed against you.

Within 20 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are: Christopher L. Coffin
Pendley, Baudin & Coffin, LLP
P.O. Drawer 71
24110 Eden Street
Plaquemine, LA 70765

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

CLERK OF COURT

Date: ____________________

____
Signature of Clerk or Deputy Clerk

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

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT, Defendants.	§ § § § § § § § § § § § §	Case No.: 3:09-CV-00298-L 1:09MC2-JAD

NOTICE OF APPEARANCE OF COUNSEL FOR RECEIVER

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

Respectfully submitted,

BAKER BOTTS L.L.P.

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

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

Attorneys for Ralph Janvey, Receiver

Certificate of Service

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

/s/ Kevin Sadler
Kevin Sadler

ORIGINAL

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
FEB 17 2009
CLERK, U.S. DISTRICT COURT
By [signature] Deputy

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

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, **v.** **STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT** Defendants.	§ § § § § § § § § § § § §	Case No.: **3-09CV0298-L**

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

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

1. I am an attorney-at-law.

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

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

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

the Commission sought emergency relief.[1] In several of those cases, including ones in which the

---

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

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

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

---

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

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

SIGNED this 16 day of February 2009 at Fort Worth, Texas.

James Kevin Edmundson

ORIGINAL

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

SECURITIES AND EXCHANGE COMMISSION, Plaintiff,	§	
v.	§	Case No.: 3-09CV0298-L
STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT Defendants.	§	

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

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

1. Orders temporarily restraining and preliminarily enjoining:

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

(1) employing any device, scheme, or artifice to defraud; or

(2) obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statement(s) made, in the light of the circumstances under which they were made, not misleading; or

(3) engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser;

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

(1) to use or employ any manipulative or deceptive device or contrivance in contravention of the rules and regulations promulgated by the Commission;

(2) to employ any device, scheme, or artifice to defraud;

(3) to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the

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

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

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

(1) employing any device, scheme, or artifice to defraud any client or prospective client; or

(2) engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client;

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

(1) acting as an investment company, not organized or otherwise created under the laws of the United States or of a State, and offering for sale, selling, or delivering after sale, in connection

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

(2) acting as a depositor of, trustee of, or underwriter for such a company; unless

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

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

3. An order requiring Defendants to file with this Court and serve upon Plaintiff Commission within ten days of the issuance of this order or three days prior to any hearing on the Commission's Motion for Preliminary Injunction, whichever is sooner, an interim accounting, under oath: (1) detailing all monies and other benefits which each received, directly or indirectly, as a result of the activities alleged in the Complaint (including the date on which the monies or other benefit was received and the name, address, and telephone number of the person paying the money or providing the benefit); (2) listing all current assets wherever they may be located and

by whomever they are being held (including the name and address of the holder and the amount or value of the holdings); and (3) listing all accounts with any financial or brokerage institution maintained in the name of, on behalf of, or for the benefit of the Defendants (including the name and address of the account holder and the account number) and the amount held in each account at any point during the period from January 1, 2000 through the date of the accounting.

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

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

6. An order authorizing expedited discovery consistent with the following guidelines:

A. Any party may notice and conduct depositions upon oral examination and may request production of documents or other things for inspection or copying, or both, from parties and nonparties prior to the expiration of thirty (30) days after service of a summons and Plaintiff Commission's Complaint upon Defendants.

B. Any party may notice and conduct depositions upon oral examination subject to minimum notice of three days.

C. All parties shall produce for inspection and copying all documents and things that are requested within three days of service of a written request for those documents and things.

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

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

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

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

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

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

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

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

February 16, 2009

Respectfully submitted,

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

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

See 3:09-cv-0298

ORIGINAL

VL

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

SECURITIES AND EXCHANGE COMMISSION, Plaintiff,	§	
v.	§	Case No.: **3-09CV0298-L**
STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT, Defendants.	§	

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

I. PRELIMINARY STATEMENT

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

Certificates of Deposit

Acting through a network of SGC financial advisers, SIB has sold approximately $8 billion of so-called "certificates of deposit" to investors by promising high interest rates. SIB claims that it offers high yields because of its unique investment strategy, which has purportedly enabled the bank to achieve double-digit returns on its investments over for past 15 years. As further described below, the bank's claims are improbable and unsubstantiated.

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

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

SGC has also failed to disclose material facts to its advisery clients. In December 2008, SGC's clearing broker advised SGC that it would no longer facilitate wire transfer requests to SIB on behalf of existing clients who desire to purchase SIB CDs. The clearing broker decided to stop transferring money to the bank because of suspicions about the bank's purported investment returns and the overall lack of "transparency" into the bank's portfolio of investments. SGC never disclosed to clients that Pershing refused to transfer client funds to SIB.

During the past several weeks, the Securities and Exchange Commission subpoenaed SIB bank records and witnesses in an effort to account for the $8 billion of investor funds held by the bank. Among others, the SEC issued subpoenas to Stanford, Davis, and O.Y. Goswick, a SIB board member residing in Texas, who is purportedly responsible for "investments." None of these witnesses appeared for testimony or produced a single document. Further, SIB represented that Juan Rodriquez, SIB's president who resides in Antigua, would voluntarily appear in the United States to give sworn testimony to the SEC and account for investor funds. Mr. Rodriguez failed to appear for testimony. The SEC did, however, take sworn testimony from Stanford Financial Group's Chief Investment Officer and SIB investment committee member (Laura Pendergest-Holt) and a former Senior Investment Officer (the "SIO"). Neither Ms. Pendergest-Holt nor the SIO could account for the $8 billion entrusted to the bank by its clients. In fact, Pendergest-Holt and the former SIO could only identify Stanford and Davis as people having knowledge and access to the vast majority of SIB's portfolio.

Stanford Allocation Strategy

Stanford's fraudulent conduct is not limited to the sale of CDs. Since 2005, SGC advisers have sold more than $1 billion of a proprietary mutual fund wrap program called Stanford Allocation Strategy ("SAS"), using materially false and misleading historical performance data. The false data has helped SGC grow the SAS program from less than $10 million in around 2004 to over $1 billion, generating fees for SGC/SCM (and ultimately Stanford) in excess of $25 million. And the fraudulent SAS performance was used to recruit registered financial advisers with significant books of business, who were then heavily incentivized to re-allocate their clients' assets to SIB's CD program.[1]

Emergency Relief Is Appropriate

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

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

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

---

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

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

II. DEFENDANTS

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

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

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

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

---

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

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

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

III. STATEMENT OF FACTS

A. The Stanford Empire

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

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

SIB is operated by a close-nit circle of Stanford's family, friend and their confidants. For example, Davis was Stanford's college classmate at Baylor University in the 1970s. SIB's Board of Directors includes Davis, Stanford, Stanford's father James A. Stanford, and O.Y. Goswick, a Stanford family friend from Mexia, Texas, whose business experience includes cattle-ranching and car sales. [App. 882, 899]. SIB's investment committee, which is purportedly responsible for the management of the bank's multi-billion dollar portfolio of assets, is comprised of Stanford, Stanford's father, Davis, Goswick and Laura Pendergest-Holt. [App. 524]. Pendergest-Holt, who became acquainted with Davis at their church in Baldwin, Mississippi, joined SFG in 1997, after graduating from Mississippi State University with a master's degree in mathematics. [App. 73]. Prior to joining SFG, Pendergest-Holt had no experience in the financial services or securities industries. [App. 73].[3] Based on these relationships, and the fact that Stanford is the sole shareholder of SIB and SGC, it appears that Stanford is subject to little or no independent oversight.

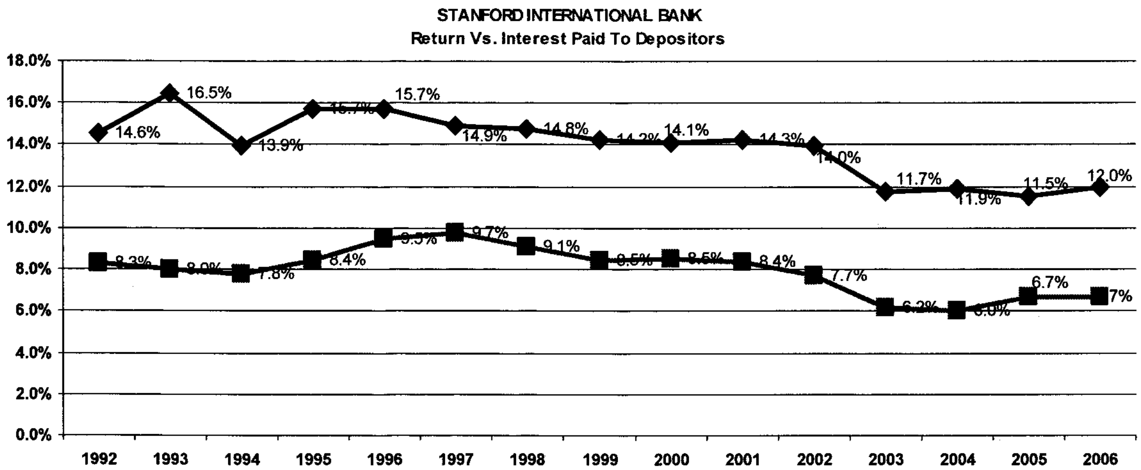
B. Stanford International Bank

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

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

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

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



[App. 345, 670, 1030].

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

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

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

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

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

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

---

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

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

C. SIB's Fraudulent Sale of CDs

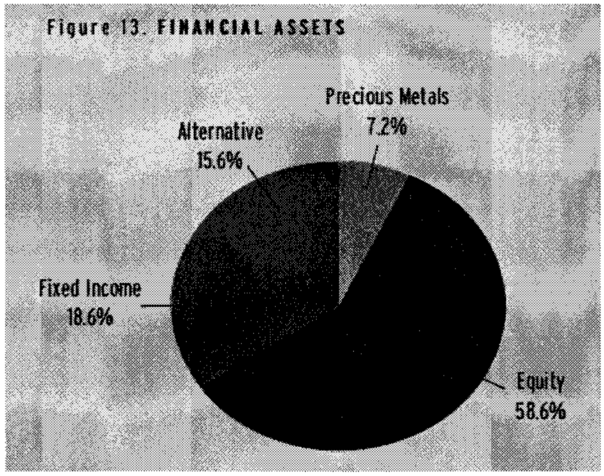
1. SIB Misrepresented that Its Investment Portfolio is Invested Primarily in "Liquid" Financial Instruments.

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

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

---

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



[App. 871]

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

5. *Pershing Transparency*

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

C. <u>SGC and SCM Misrepresented SAS Performance Results.</u>

From 2004 through 2009, SGC and SCM induced clients, including non-accredited, retail investors, to invest in excess of $1 billion in its SAS program by touting its track record of "historical performance." [App. 679]. SCM highlighted the purported SAS track record in thousands of client presentation books ("pitch books"). [App. 679-681]. For example, the following chart from a 2006 pitch book presented clients with the false impression that SAS accounts, from 2000 through 2005, outperformed the S&P 500 by an average of approximately 13 percentage points [App. 757]:

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

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

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

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

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

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

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

---

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

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

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

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

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

Calendar Year Return
As of March 2008

	YTD	2007	2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.44%	12.40%	14.68%	8.82%	16.15%	32.84%	-3.33%	4.32%	18.04%	22.59%
S&P 500	-9.44%	5.49%	15.79%	4.91%	10.88%	28.68%	-22.10%	-11.88%	-9.11%	21.04%

Annualized Returns
(not annualized if less than 1 year)

	YTD	1 year	3 years	5 years	7 years	Since Inception
SAS Growth	-7.44%	0.80%	9.36%	15.31%	11.03%	12.30%
S&P 500	-9.44%	-5.08%	5.85%	11.32%	3.70%	2.45%

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

IV. LEGAL DISCUSSION AND ARGUMENT

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

Moreover, the ancillary remedy of a freeze order requires a lesser showing than that needed to obtain injunctive relief. *See SEC v. Gonzalez de Castilla*, 145 F. Supp. 2d 402, 415 (S.D.N.Y. 2001) ("courts may order a freeze even where the SEC has failed to meet the standard necessary to enjoin future violations"). For example, to obtain an asset freeze, the Commission need not show a reasonable likelihood of future violations. *CFTC v. Muller*, 570 F.2d 1296, 1300 (5th Cir. 1978). Instead, when there are concerns that defendants might dissipate assets, a freeze order requires only that the court find some basis for inferring a violation of the federal securities laws. *Unifund Sal*, 910 F.2d at 1041. Similarly, it is well-established that the Court has the authority to grant any form of ancillary relief where necessary and proper to effectuate the purposes of the federal securities laws. *SEC v. Materia*, 745 F.2d 197, 200 (2d Cir. 1984), *cert. denied*, 471 U.S. 1053 (1985). Included in the court's equitable powers is the authority to appoint receivers. *See, e.g., SEC v. First Fin. Group*, 645 F.2d 429, 439 (5th Cir. 1981).

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

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

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

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

---

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

(1981). Stanford, Davis, Pendergest-Holt, and the Stanford corporate defendants violated these antifraud provisions.[16]

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

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

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

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

---

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

b. The CD is a security.

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

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

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

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

Importantly, the *Reves* Court held that if the seller's purpose is to finance substantial investments and the buyer is interested primarily in the profit the instrument is likely to generate, the instrument is likely to be a security. *Id.* at 66. That is precisely the situation here. Likewise, when the issuer solicits individuals, as compared to solicitations of sophisticated institutions, that indicates "common trading" and weighs in favor of finding the instrument a security. Again, that is the case here, where SIB, acting through its affiliated investment adviser and broker-dealer routinely solicits individuals via retail investments. [App. 593, 668]. Third, the public would reasonably view these instruments as securities investments, particularly where SIB itself describes them repeatedly as investments and advises clients that the offering of the CDs is subject to the antifraud provisions of the federal securities laws. Importantly, in *Stoiber v. SEC*, 161 F.3d 745, 750 (D.C. Cir. 1998), the D.C. Circuit Court held that courts should consider instruments to be securities on the basis of public expectations, "even where an economic analysis of the circumstances of the particular transaction might suggest that the instruments are not securities as used in that transaction."[17]

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

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

---

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

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

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

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

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

---

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

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

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

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

3. Defendants Misrepresentations and Omissions Were Material.

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

4. The Defendants Acted With Scienter

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

---

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

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

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

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

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

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

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

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

The definition of an investment adviser in Section 202(a)(11) of the Advisers Act, 15 U.S.C. § 80b-2(a)(11), includes "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities." SGC/SCM do exactly that on a daily basis. Likewise, Stanford, as control person of both of those entities, satisfies the statutory definition of an investment adviser. *See In re Jay Deforest Moore, et al.*, Investment Advisers Act Rel. No 1548 (Jan. 19, 1996), 61 SEC Docket 544, 545 (charging individual with direct violations of Sections 206(1) and (2) of the Advisers Act because he "exercised exclusive control over" the firm and, therefore, was the firm's alter ego).

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

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

3. Each of the Defendants Acted with Scienter

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

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

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

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

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

---

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

V. APPROPRIATE RELIEF

A. Injunctive Relief

In analyzing the need for injunctive relief, courts focus on whether there is a reasonable likelihood that the defendant, if not enjoined, will engage in future illegal conduct. *See, e.g., SEC v. Comserv Corp.*, 908 F.2d 1407, 1412 (8th Cir. 1990); *SEC v. Bonastia*, 614 F.2d 908 (3d Cir. 1980); *SEC v. Commonwealth Chem. Sec., Inc.*, 574 F.2d 90, 100-101 (2d Cir. 1978). In determining the likelihood of future violations, the totality of the circumstances is to be considered. *Murphy*, 626 F.2d at 655. In granting or denying injunctive relief, courts have considered the following factors: (1) the egregious nature of the defendant's actions; (2) the isolated or recurrent nature of the violations; (3) the degree of *scienter* involved; (4) the sincerity of the defendant's assurances, if any, against future violations; (5) the defendant's recognition of the wrongful nature of his conduct;[23] and (6) the likelihood that the defendant's occupation will present opportunities (or lack thereof) for future violations.[24] Additionally, other courts consider the defendant's age and health. *See SEC v. Youmans*, 729 F.2d 413 (6th Cir. 1984); *SEC v. Wash. County Util. Dist.*, 676 F.2d 218, 227 n.19 (6th Cir. 1982); *SEC v. Universal Major Indus. Corp.*, 546 F.2d 1044, 1048 (2d Cir. 1976), *cert. denied*, 434 U.S. 834 (1977).

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

---

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

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

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

B. Ancillary Relief

1. Asset Freeze

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

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

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

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

2. Defendants Should Be Ordered to Preserve Relevant Evidence.

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

3. Expedited Discovery Is Appropriate.

The Federal Rules of Civil Procedure give District Courts discretion to permit expedited discovery. Defendants are usually given until at least 45 days after the service of a summons and complaint to respond to document requests, Fed. R. Civ. P. 34(b), and 30 days after such service to appear for a deposition, Fed. R. Civ. P. 30(a) or respond to interrogatories, Fed. R. Civ. P. 33(a). But each of these Rules provides that the Court, in its discretion, may shorten these periods. *See also Gibson v. Bagas Restaurants, Inc.,* 30 Fed. R. Serv. 2d 792, 87 F.R.D 60 (W.D. Mo. 1980) (accelerated discovery is allowable within the discretion of the Court). Moreover, where urgent relief is sought and expedited discovery is needed to accomplish that result, a court may grant accelerated discovery. *See Notaro v. Koch,* 35 Fed. R. Serv. 2d 580, 95 F.R.D. 403 (S.D.N.Y 1982). Expedited discovery is required in this case to enable the Commission more fully to develop the evidence prior to the conduct of a preliminary injunction hearing. The Commission should have the opportunity to supplement a complete evidentiary record prior to the preliminary injunction hearing. Also, expedited discovery is vital to determining the scope of the fraud and the whereabouts of investor funds. Accordingly, the Commission requests depositions on notice of 3 days, with notice provided as noted below.[25]

4. Alternative Service and Notice Provisions

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

5. Accounting

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

[25] This is particularly important here because Defendants have not produced any documents during the investigation, and have failed to comply with lawfully issued subpoenas.

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

6. Appointment of a Receiver

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

7. An Order For Passport Surrender Are Appropriate.

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

8. A Repatriation Order is Necessary.

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

881 (S.D. Fla. 1974).

Respectfully submitted,

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

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

Testimony

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)

) File No. FW-02973-A

STANFORD GROUP COMPANY) Amended: 2/6/2009

WITNESS: Michael J. Zarich

PAGES: 1 through 118 ORIGINAL

PLACE: Securities and Exchange Commission

801 Cherry Street, 19th Floor

Fort Worth, Texas

DATE: Friday, January 30, 2009

The above-entitled matter came on for hearing, pursuant to notice, at 11:38 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1a46b99e-8d5b-48e7-824e-50cb5f1c974e

APPEARANCES:

On behalf of the Securities and Exchange Commission:

M. THOMAS KELTNER, ESQ.
MICHAEL KING, ESQ.
KEVIN EDMUNDSON, ESQ.
DAVID REECE, ESQ.
CRAIG ELLIS, Regulatory Staff
Division of Enforcement
Securities and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, TX 76102

On Behalf of the Witness:

PATRICK K. CRAINE, ESQ.
Bracewell & Guiliani, LP
1445 Ross Avenue, Suite 3800
Dallas, TX 75202
(214) 758-1048

1a46b99e-8d5b-48e7-824e-50cb5f1c974e

C O N T E N T S

1a46b99e-8d5b-48e7-824e-50cb5f1c974e

P R O C E E D I N G S

MR. KELTNER: We're now in the record, Mr. Zarich. I'd just like to go through a few preliminaries very quickly.

I know you've had a chance to talk to Terry about testimony and how it works -- you know. We'll try to follow Terry's admonitions -- you know, no non-verbal responses, all that kind of stuff.

But just real briefly, I'm Tom Keltner. With me today are Kevin Edmundson and Michael King of the Enforcement Division. Mr. King has stepped out. He'll be back briefly. David Reece is also here, and also Craig Ellis from our Reg staff.

We've requested your testimony as part of a formal inquiry in the matter of Stanford Group Company. We'll go ahead and get you under oath at this point, if you're okay with that.

MR. ZARICH: Okay.

MR. KELTNER: Could you please raise your right hand?

Whereupon,

MICHAEL J. ZARICH

was called as a witness and, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. KELTNER:

1a46b99e-8d5b-48e7-824e-50cb5f1c974e

Q Thank you. Could you please state and spell your full name for the record.

A Michael Joseph Zarich.

Q How do you spell Zarich?

A Zarich is Z, as in zebra, a-r-i-c-h.

Q Before we went on the record, I gave you and your counsel a copy of the Formal Order in this matter, including an amendment, a couple of amendments, that added myself and Michael King to the Formal Order, as well as a copy of the Commission's Form 1662, which you also should have received a copy of with your subpoena?

A Yes, that's correct.

Q Do you have any questions regarding those documents at this point?

A I do not.

Q Okay. They will be available throughout your testimony, if you choose to reference them, or if you have questions at a later date. I'll be happy to answer those questions. Mr. Zarich, are you represented by counsel today?

A Yes, I am.

MR. KELTNER: And would counsel please identify himself?

MR. CRAINE: Patrick Craine from Bracewell Guiliani, here on behalf of Mr. Zarich.

BY MR. KELTNER:

Q Okay. Mr. Zarich, you're here under subpoena today. After you received the subpoena, could you tell me what you did to look for documents and other responsive materials?

A I did. I checked per our previous phone conversation. I checked for some files that I thought I might have, and it turns out I did, and then Patrick has submitted those to you all today on a floppy disk.

Q Okay, and the computer that you pulled these documents from, that was a personal computer?

A It was. It was a home desktop computer.

Q Okay, and just generally, how did those documents end up on that computer? Was it a computer you used for work, from home, logging in, that kind of thing?

A It was. It was -- and I should backtrack. There were some on a floppy as well. There were some disks on a floppy. But yeah, it would be downloaded probably from e-mail and looking at files, so forth and so on.

Q Okay, and these are all documents that would have been on there for quite some time? They weren't recently added or anything like that?

A No. It's been -- I left Stanford a year and a half ago, so at least a year and a half.

Q Okay. Were there any -- so did all the documents that you're producing today come from that computer?

A Yes, or the floppy.

Q Okay, and when you say the floppy, what is that?

A Oh, the disk. I still call them floppies.

Q Like CDs?

A A CD, I'm sorry.

Q Okay.

A And they were on a floppy. I had a work computer, the laptop that I turned into Stanford, that frequently crashed. So I think over time I had compiled some files on that disk.

Q Okay. You transferred some files over from time to time?

A Yes.

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

A I did not, because I don't have access to the Stanford Exchange server. There wouldn't have been any on hotmail or anything like that.

Q Any recent e-mail correspondence you had with people from Stanford?

A I have some friends there, lunch -- you know, Super Bowl, who's going to win. Some friends in Antigua and the Houston office that I keep in touch with.

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

A No.

Q Okay. So no e-mails that say things like, call me, and then led to discussions about --

A No.

Q Since you brought it up, who are you still close with at the company?

A And I don't know if we want to differentiate my time in Houston or Antigua, but Houston I still talk to Brent Hennings. He's in commissions. Mark Grosebeck is a financial advisor in Houston.

Willie North and Ben Simiski. I believe that's S-i-m-i-s-k-i. That's kind of our every other week lunch crowd. Mark and Ben work together, and then in Antigua, Sasha Mercer is probably my most frequent, and it is usually by e-mail we communicate.

Q And what's Sasha's role?

A She's the -- they call her the protocol officer, which is really the kind of concierge. She's responsible for organizing trips to the bank, clients, prospects, hotel accommodations, airfare. Kind of runs the tour, if you will.

Q Okay. So did you interact with her quite a bit when you were down in Antigua?

A Yeah, very much so.

Q Okay. At this point, just to kind of set the stage -- obviously, we've spoken before. We did an informal

interview, and we're probably going to go back over some of that ground now, since now we've got a court reporter.

So we may -- you know, don't get frustrated if we're going back over stuff we talked about before.

A Okay.

Q So just kind of starting from the beginning, how did you come to work at Stanford Group?

A I was hired in 1999, June-July in Denver, Colorado, as an asset management analyst, in what was then the Private Client Services Group, which is the advisory arm or the Advisory Department of Stanford Group Company, the broker-dealer/RIA.

I was hired to create and promote a mutual fund allocation program called MFP. The PCS, Private Client Services Group, had an array of fee-based products, separate account managers, this program and a few others. So that was while I was hired. Do you want me to kind of run through the whole quick history of --

Q Yeah, that would be great.

A I worked there in 2002, the beginning of 2002, end of 2001-2002, that Denver office was essentially closed, and I was luckily offered a job in Houston, in which case Chip McNeil and myself moved to Houston to still run that group in 2002.

He left the company, I believe late that year, and

it basically became my group. At some point in there, it was redefined as the Investment Advisory Group, which I ran right up until December 31 of 2005, which then -- and then I was transferred down to Stanford International Bank in Antigua, as the role of senior investment officer, until my resignation in July 2007.

Q Okay. Who hired you initially?

A It was joint, Chip McNeil that I mentioned, who was technically my supervisor, and we both reported to Bob Glenn, who ran that whole department, the Private Client Services Group.

Q Okay, and then did your reporting chain stay pretty much the same until you moved to Houston?

A Yes, yes. In Denver it did, and then in Houston, it was Chip McNeil and then Jay Comeaux and Alvaro Trullenque. I had a few reports over the years, but --

Q Sure.

COURT REPORTER: Can I get the spelling of that last name?

THE WITNESS: Oh, yeah. Al Trullenque, T-r-u-l-l-e-n-q-u-e.

BY MR. KELTNER:

Q Okay, and after you got to Houston, who was in the -- I guess, we'll call the Investment Advisory Group. I know it changed names over time.

A We got there, it was the two of us, Chip and myself, and we hired an assistant.

Q What was his or her name?

A Her -- I'm afraid it's sad to say I'm going to have to say I don't remember. I could come up with it.

Q Yeah. Is that Jurika, or is that a different assistant?

A No. Susan, no. She's gone. She was with us maybe nine months, six to nine months. I do know Susan, though.

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

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

Q Okay, and since we're talking about her, what was her job?

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

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

A And forgive me for dates, but my next -- Chip was let go, I want to say fall of 2003, I believe. Then I essentially then had the reins myself, and then it was a small department at the time. But the growth was starting to

ramp up, and I made my first hire, I believe, in 2004. 2003 or 2004 was Jason D'Amato.

Q Okay, and how did you know Mr. D'Amato?

A A resume that came in through our Human Resources Department.

Q So you hired D'Amato in, you think early '04, '03, somewhere in that time frame?

A Yes.

Q And so he --

Was he kind of your number two?

A Yes, yes.

Q So he comes in --

I guess MFP is established at this point.

A Yes.

Q Okay, and were there other senior people, or is it mostly you and Mr. D'Amato at this point?

A It was us. We reported. We did report to Jay now, as I mentioned, and then there was a period in there we switched over to Ben Finkelstein. F-i-n-k-e-l-s-t-e-i-n.

Q Okay. Was he in the Fixed Income group?

A I believe he's still there. He's an institutional Fixed Income trader/transacter.

Q And then just to -- since we're on the path, let's go ahead and walk through how -- both up and down, how the management chain changes. Because I know at some point Stys

comes in and Parrish comes in. Could you kind of sort that out for us?

A Yes. Let's just go to the beginning. Bob Glenn, Chip McNeil, and I'd say Jay and Alvaro together, because they're a team. That's Jay Comeaux and Alvaro Trullenque. Ben Finkelstein and then Eddie Rollins, and then really Danny Bogar would be my last report.

Q And just for the record, who is Danny Bogar?

A He was -- I think he's still there, the managing director over Stanford Group Companies, which would be the broker-dealer. I guess anything really under the broker-dealer, Investment Banking, Coins and Bullion. There's actual BD itself.

Q And would you include the investment advisor in that, or no?

A We were under that, yes.

Q Okay, and so I know at one point --

A Oh, go ahead.

Q At one point the investment advisor spins out to a new company?

A Yes.

Q Okay, and that was --

A Then that was after -- the talks were starting when I was still there in 2005, but I think the ultimate spinout was beyond after I left the bank. I want to say 2006, and

then it did spin out to Stanford Capital Management.

Q Okay, and the business unit that you managed became Stanford Capital Management?

A Correct, correct.

Q Okay, and so were you still in that group when Stys and Parrish come into the picture?

A No.

Q Okay. So did Parrish largely replace you, is that correct?

A Yes. Jason did, I don't know if de facto is right. Jason did technically replace me.

Q Okay, Jason D'Amato.

A D'Amato when I left for the bank, and then I think Zach Parrish came in shortly after and Jason reported to Zach. Then Mark Stys came in after that. I think it's kind of in between Zach and Jason, I believe.

Q Then during this time frame, you're down in Antigua?

A Correct.

Q So you have probably have some picture in what's going on up in Houston that you're not directly involved?

A Yes, and I will say I did not live full time in Antigua. I essentially did a rotation mostly there, but maybe a week a month I was still in Houston, in which case I was officed at the 5050 location, which is where the

broker-dealer is.

So yes, I was in loose contact. I was mostly in contact with the financial advisors, and not so much that group.

Q I'm just trying to get context. Are you single or married at this time?

A In between.

Q Okay. Well, I was just trying to figure out where your family would have been?

A They were there in Houston.

Q Did you have kids in Houston?

A Kids in Houston.

Q Okay, so you're rotating back, spending time with your family?

A That was -- exactly.

Q Was that part of your deal, that you'd get to come back from time -- frequently to see family and all that?

A Yes. That was certainly a caveat to accepting that position as senior investment officer, was that I would not move down there. They tried to get me to move, with my family to move down there, but I did not.

Q Okay, and just since we're kind of going through the time line at this point, was it around the end of '05, early '06 when you made the move to Antigua?

A Yes. Jim Davis approached me with a position in I

want to say August of 2005. I accepted, and then that fall really was a training period, getting ramped up for that position, for a January 1, 2006 start date.

Q Okay. When you say "a training period," what did that involve?

A It was mainly working with Laura Pendergast in Memphis on what my duties would be. We talked about a big part of my responsibility would be essentially facilitating in the sales process of the CD Products of the bank, and how to communicate with financial advisors and their clients and their prospects. Go ahead.

Q So it sounds like -- how long were you in Memphis?

A I was there a lot. Not every week, but quite frequently for those three or four months that I was training. So let me -- there was a previous rotation as well to Memphis, even back to the Investment Advisory Group days, with the intention of getting synergies with that research group. We were already on a rotation basis. So I had previously been spending time in Memphis.

Q Okay, and roughly when was that?

A That would have been in that '05, '04-'05 period.

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

A Yes. Laura Pendergast is the chief investment officer of the Stanford Financial Group, and among her duties she has, I want to say, 20 or so research analysts that handle sectors and kind of macro research on currencies, regions. They're responsible for Asia, Latin America, whatever.

So they put out reports that the financial advisors would use to educate themselves and their clients, interest rates and markets, where they're going.

So it made sense for the Investment Advisory Group to meet with them, to give us ideas how we're going to allocate portfolios and strategies.

Q So you interacted with them on MFP-related issues; is that correct?

A Right.

Q Okay. Advice on investment strategy, which sector they should be in, which parts of the world, those kinds of things?

A Yes, yes.

Q Was it also part of the responsibilities or work flow of this group in Memphis to consult on the management of the assets of the bank?

A Yes. I would say from a monitoring standpoint, the 20 analysts in Memphis were responsible for overseeing a portion of the assets of the bank. As we've discussed, the assets of the bank is an investment portfolio on a loan

portfolio. So --

Q Right.

A Go ahead.

Q So let's talk about that for a minute. So you say it's not a loan portfolio. Are you saying as opposed to a conventional bank, where they take money in and they loan it out, they've got a loan portfolio, SIB is a little different. Can you tell me how it's different?

A Correct. Yeah, the model is different, in just that first of all, there's no loans at the bank. There's just one chartered bank in Antigua, and the only product they have is a certificate of deposit with maturities from one month to five years.

So the depositor puts their money on. They get a guaranteed rate, whatever percent. That money -- like traditional banks would loan that money out to create a spread.

This bank would invest it and try to create a spread over the returns that they would make in those investments to obviously be profitable and be able to pay the liabilities of the depositors and give them their money back in maturity.

Q And then just big picture, since we're talking about it. What types of assets would they invest in?

A Stocks, bonds, commodities, currencies, alternative

investments such as hedge funds, funded funds.

Q Okay, and what's your basis for saying this? Are you basing this on your time in Memphis or on your time in Antigua? I mean, how do you know?

A It was certainly part of my training, and this is the educational process at Stanford in general. I mean, I knew that even from day one about the bank and this is how it works. But I was -- while I was at the Investment Advisory Group, I was asked to go on some trips to Europe, which is where a lot of the money managers and banks and institutions are domiciled that run the money for the bank in Antigua.

So I met a lot of them, a lot meaning like ten, maybe eight. I had never -- the literature, and I don't want to say literature, but the training is that there's 25 or 30 of them, private banks.

Q And you think you met around ten?

A I'd say ten.

Q Okay, and in terms of seeing documentation or statements, do you think there were 25 or 30, or how many did you actually see? What was your sense based on your actual experience, as opposed to what the training material said?

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

here and there, or a piece, never the whole picture.

Q Okay. I mean, one of the things we're trying to do is get our arms around how the bank works. It might be helpful -- you know, somebody with your expertise and your time down in Antigua.

I'm trying to distinguish in my own mind how the investment side of this thing is similar to or different from a hedge fund, because it sounds a lot like a hedge fund in the sense -- you know, you've got your equities, your fixed income, your alternative investments. How would you compare and contrast those to a hedge fund?

A I would say because it is a bank, and it's chartered as such, and the only product is certificate of deposits that they issue, makes it very bank-like. So regardless of what this investment portfolio does, there's still an implied guarantee that has to be paid to the depositor.

So it is a bank. It's chartered as a bank, as banking products. The asset side, I always looked at it more like a mega-endowment. Well, I guess not mega compared to like Yale or Stanford, that it was managed very much in that regard, you know.

They use a lot of private equity, meaning Yale and Harvard. I didn't see a lot of private equity in there, but just kind of a lot of investment vehicles that smaller institutions or individuals can't get, that they were able to put their money with these managers or banks or whatever, to generate this positive spread to keep the bank profitable year-in and year-out.

I was traveled and met enough of these managers -- you know, or it was believable. You know, I met them, and as we spoke on the phone, I mentioned Credit Suisse as a private bank who handles one of the sleeves, let's say the 25 sleeves.

I don't know how much they managed, but they would even go further into the diversification process by having maybe 20 managers -- you know, underlying managers or funds or whatever in there. So a very diverse concept.

Q Okay. Well, I think for now we've got kind of an overview of the bank and how it works. So let's leave that for a moment and then we'll come back to it in a little bit.

So I want to back up to earlier you told us that you were hired to come in and establish a mutual fund wrap program?

A Yes.

Q Okay. Was that pretty much the understanding from day one?

A Yes.

Q Okay. That's what you were hired to do?

A Yes.

Q Okay. Did Stanford have a similar product when you got there? Were they in the business before you got there?

A The mutual fund?

Q Yes. Were they in the business before you got there?

A The mutual fund? Yes.

Q They had a mutual fund allocation?

A Yes. Chip had done -- yeah. There was assets in place, so it wasn't -- it didn't start at zero. It might have had eight million in it.

Q Yeah. I think you told me before seven and a half, so in that ballpark?

A Right. So I should -- that's a good point. I mean, I didn't go from -- I created from zero. I built the models and picked the funds and hired the promoters.

Q Okay. So when you show up, what do you do? How do you get started in establishing this program or growing this program?

A It starts with building models, or --

Q I mean, kind tell me about it. You're building models. I assume there's kind of a piece of it where you're figuring out how do we get clients, how do we market -- you know, that sort of stuff.

A The models start out obviously with kind of a risk tolerance assessment. You want to, and this is modern

portfolio theory, asset allocation 101. You know, you want to create a model that has the -- you know, the right growth objectives, the return objectives with the least amount of risk, and you define an optimal mix of equity bonds and cash. That's what it was back then. Now they have all these other asset classes.

You design a questionnaire to assess a client's risk and investment objectives, and you score it and then you come up with -- you know, this is a young person who's going to stay for 30 years. They're going to be in the growth all the way to conservative. So conservative, moderate growth.

I had nine models, 1 being conservative, 9 being the most growth. The questions in the questionnaire are designed to -- you know, peg the clients on whether --

And then as far as creating the allocations, we were using Ibbotsson at the time as an optimization.

Q Can you spell that for Terry?

A Oh. Ibbotsson is I-b-b-t-o-s-s-o-n.

Q And what's Ibbotsson?

A Ibbotsson is an optimization software, and what it does is take historical information from various asset classes and you find the right mix of the growth model, or conservative or moderate.

Q Okay. So you said when you started out, quickly thereafter you had nine strategies?

A Yes.

Q Okay, and what's on the -- you said it goes from one to nine in terms of risk. I guess what's the most conservative and what's --

A One conservative, and based on the optimization -- you know, you would think of one being the most conservative with the most fixed income, or cash, in the order of cash, fixed income. Then of course even within fixed income, you've got government debt, high yield debt. So you have different risk parameters of debt in there, to nine, being all equity.

Q Okay, and is nine growth?

A Growth. Yeah, that would be there.

Q And as you kind of scale back in the risk profile, I think I've seen growth plus income and different things like that. I mean, what --

A The models for change. After I left from nine to five, and that they were defined, I think. Yes, you're right. I want to say growth, growth plus income. But I think there was five. I think Jason and Seth would -- you know, because I don't recollect --

I recollect we had nine models right up in there, and they switched over to five.

Q And when you say Seth, is that Seth Hare, H-a-r-e?

A Yes, yes. Seth Hare was our third hire, my third hire.

Q Is he an advisor type or an administrative type?

A Analyst.

Q Analyst. And when they went from nine to five strategies, is that the same time they renamed the program SAS?

A Yes.

Q Okay, and what does SAS stand for?

A I believe it's Strategic Allocations -- I don't know actually.

Q Strategic Allocation Strategy or Stanford Allocation Strategy, something like that?

A Yes.

Q And so this change from nine to five and the change in name, does this happen in '06 when you're down in Antigua?

A I believe so, yes.

Q Okay. So we talked a little bit about how you put the strategies together. Then I assume part of it is figuring out how you make this thing attractive to customers, how do you market it. So what was the strategy there?

A The next step, you've got your allocation set, your model set, is the fund selection process. So you have X in large cap growth, X in large cap value, and then you want to fill the best manager or mutual fund manager in the space.

It was my thought, and even at the time in a pretty

commoditized style product, that's where maybe you could differentiate. Because at the end of the day, these allocations are probably what Morgan Stanley's putting out in a variation.

So my thought was to truly add value, would in taking those managers -- you know, that could be -- sorry.

Q That's fine.

A So I know at one time I had this like 13 point manager selection, meaning how long has the manager been there, what's their background, what's the style of consistency, what are the historical returns, the risks, all these kind of 13 steps that you would go through -- you know, to pick a manager. Due diligence, if you will.

Q And you're talking about the managers that manage the mutual funds that end up --

A The mutual funds you put --

Q Into the different wrap programs?

A Right. Like you have a mutual fund in there that's really lagging for a couple of years or whatever, or a manager leaves or something happens where you need to replace that fund manager.

Then you go out to the universe of 8,000, and you start looking for a manager that you feel would be the best one to perform going forward.

You would call them up, maybe talk to one of their

analysts and how do you buy, what's your risk management process and all those kind of things, and make a selection. So that to me was one of the big selling points -- you know, that somebody's always watching it, you know. You've got someone that's watching the allocation that will re-balance it, that will do the fund changes for you, and that are watching these managers.

Whereas, if a broker or a financial advisor is not going to know if -- you know, Joe Blow, the lead manager left the fund. So that's the job of IAG or SCM to manage that process, to oversee it.

Q Okay.

BY MR. ELLIS:

Q Okay. Perhaps I can clarify something here, Tom. Do you have a general sense of how often in these programs you would change the allocation of each model, and there's a second question, how often you might switch out a manager for each piece of the allocation?

A When I was running it, I had a 5 percent -- two points to the question. One, I had a 5 percent band, if you will, on the allocation. So if a client deviated over that 5 percent threshold, you'd re-balance it.

You didn't want to -- you know, you've got transaction costs and potential taxes, so you didn't want to re-balance too frequently. That came out to be probably

about once a year. And similar on the fund side, I don't think you change funds to -- you don't want to change funds too frequently.

In my memory, recollection might have one or two a year you would change a fund out, and not because of performance. You know, I mean, there's -- funds will lag.

If you have a fund manager, I don't want this to get too technical, that their systems are in place and the managers are still there and they're doing what they always say they do. Yet they're lagging

You know, we know the late '90s was a good example of that. That's not a reason to sell them out. You sell them out if there's more of a bigger change in the fund, like they left the firm or they're doing something. They're large caps buying small cap stocks.

Something like that is a reason to change out a manager.

Q How often would you actually change the allocation? Say for example you had a growth allocation that on real basic terms was 60 percent --

A Oh, I see.

Q -- 40 percent allocation. How often would you adjust the model allocation?

A About annually, and it's tweaking.

BY MR. KELTNER:

Q Yes, it's not actively managed. Yeah, it's not tactical would be the word I would use, by any stretch of the imagination, where you're going to go all cash. It would be more like you might -- you know, maybe you have 23 percent in growth and 17 percent in value, and there's a shift in the market.

You know, you may go more in value, 20 percent in value and 18 percent in growth. We'd look at that about --

A Well, we'd look at it all the time, but maybe change it about once a year.

Q And was that usually around year-end, or -- I mean, was it at the end of the year, where you sat down and thought, okay, how are we going to reallocate these things, or was it --

A No, I don't recollect.

MR. CRAINE: Excuse me. I didn't quite hear the question.

BY MR. KELTNER:

Q Was there any rhyme or reason to when in the year you would do the reallocations or --

A I don't recollect it being a calendar year. I think it's more of a fluid process than a set time.

Q Okay, but typically not much more often than once a year would you sit down and make the changes?

A Yes.

Q So the models were relatively static, and they would change from time to time?

A Yes.

Q But it's not like you were going in on a monthly basis and changing allocations or changing managers or funds --

A No.

Q When you first started out, let's take growth for example. Ballpark, how many different assets or funds would you have allocated to?

A I ran about five equity -- generally speaking, a large value, a large growth; a small value, a small growth and an international manager. Then in the fixed income piece, a high yield corporate bond fund and maybe like a government bond fund and then cash.

What is that eight, I guess eight plus cash is nine was about it. Then remember you might have like number 9 model. Wouldn't have any of those fixed incomes. So you're allocating amongst the five equity pieces.

Q Okay, and so were a lot of these, just to characterize them, were they large funds, some index funds, those types of things, or were they --

A No, I believe in the active managed approach. So no index funds, and part of my personal due diligence bias was to steer away from large fund companies, looking for

smaller asset size. Not always, but --

Q Sure.

A I think that's -- you know, more -- you know, staying away from the Fidelities and the Vanguards -- you know. It's like -- I guess it kind of sizzle too in the program, like -- you know, look at us, we're finding these under the radar type mutual funds.

Again, back to -- this is how we're adding alpha. We're picking managers or I'm picking managers that you don't have the time to do.

Anybody can pick Magellan or Vanguard or that, and the theory that larger managers typically underperform. Larger asset-size managers typically underperform over time.

Q Is that just because it's harder to manage a larger portfolio of assets --

A The evidence is, leads to that's one of the theories behind the study, is they're not nimble enough in the market to get out of positions or to get into positions. It's a slower, it just drags it down. That's academic.

Q Sure, and we don't want to get too mired in the academic. So I think we understand the asset fairly well now. The next piece, how do you get this -- how do you present it to clients?

A Really, my first line of clients would be the broker, the financial advisor. When I first started, it was

in a period of just incredible bull market. We all could probably remember Redhead and Qualcom and you're dealing with stocks that are doing 100, 220 percent a year.

I'm trying to promote a program that's targeting 12 percent a year, 14 percent a year. But I'm losing my train of thought. I feel it's slipping. But the idea to go out to the broker is look, you don't want to be picking stocks. You want to be out gathering assets.

Let the Private Client Services Group run those assets for you, you know, to make the trades, to invest the funds, invest it in the MFP, re-balance it, change funds when we need to. So these are the brokers --

Q Monitor it. When you say the brokers, these are the brokers at Stanford Group?

A Yes.

Q Okay. So you're talking to the brokers and you're saying put your clients in my asset?

A Correct. So yes. So the first line is to go out to the brokers and promote, almost like an internal wholesaler, to promote your program to raise assets.

And in that process, though, you do end up meeting with clients as well. Hence, why it had to be licensed, with brokers like Gray, I don't understand it. You talked to my client --" you know. So you would sit down and go shoot the proposal.

Q Okay, and would those typically be bigger clients that you would be called in for, was it just kind of off the board? In terms of they had more money to invest?

A That's a good question. Yes, I would say in general, yes.

Q Okay. So if it was an important pitch, you would be brought in?

A Yes, and that's -- I guess as I became more respected in the firm -- you know, after I was -- I guess the advisors were more confident putting me in front of clients.

Q Okay. So when you're talking to the brokers and you know the brokers are then going to have to go out and pitch this to a client, what are you giving them in terms of the tool box? I mean, what do they have to work from? Do they have any materials?

A Well, there's a brochure on the program, that talks about kind of the merits we've been talking about -- you know, actively managed. We're going to pick your funds with this 13-step process, re-balance it when necessary. But you would ultimately present a proposal, and that's really where I would be brought in.

I guess to clarify, it would be like -- you know, and the same thing with the bank, too, at the end -- you know, like to close it. But that proposal process was,

should be the client fills out that questionnaire we spoke about, here's my investment horizons and my risk tolerance.

We scored up, it's a Model 7 and we would generate a proposal which would be like a Model 7 looks like this -- you know, X in bonds and equity and cash and here are the funds we recommend, and we would present it as such to the client, kind of flip through the pages and talk about asset allocation, not having your eggs all in one basket, et cetera.

Q And so what's that proposal look like? What's the client getting?

A The one we worked off for years was a PowerPoint presentation. It was ten pages, maybe 12 pages. The title page. Do you want me to kind of run through what it would look like?

Q Yes.

A The title page. I recollect it was -- it started macro. The first couple of pages talk about the theory of asset allocation and why you would do this, and then your first chart would be the broad allocation, equity, bonds, cash.

Then the next chart would be like let's break down equity value growth, and then let's break down bonds. Then you would lead into the hypothetical page, and the hypothetical page would be, which everyone wants to see,

returns. The hypothetical is just that.

It's like if you invested in this portfolio -- it would be a graph. Like if you had $10,000, if you invested $10,000 five years ago, this is what it would have grown to. You would also, say in those five years it annualized 14 percent. This is what the S&U and maybe compare it to the S&P did whatever, 12 percent.

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

A Yes.

Q Explain to me kind of like you would explain to a client what hypothetical performance is?

A Hypothetical is a lookback. This is -- it's a good question. This as if you were here five years ago in these seven funds I'm recommending, this would have been your return.

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

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

A That's correct.

Q So it's not --

A This is what this recommendation did for the last five years.

Q So the recommendation we're giving you today, had you been in it for the last five years, this is what you would have earned?

A Correct.

Q Okay, and again, I'm just trying to clarify this, because there are lots of different terms and we want to make sure we're on the same page. Can you compare that for me to -- you know, model performance, how model performance would be presented?

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

A I think I do. I think this to me is model performance, but you want to know like how would those nine models --

Q Well, I think we've seen some other, maybe other groups or other firms, and maybe perhaps Stanford at various times, have presented model performance, as in this is what our model did the last five years -- you know. This is what the models were, this is what the return numbers were for the model.

A Yes.

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

what our model looked like the last five years. Do you understand what I'm saying?

A I do. I think and I can't say. I mean, every firm on the street probably does that, where they do this model, look back -- I mean, I guess we're sticking to mutual funds in this case.

You know, here's the mutual fund allocation. The same thing that I'm talking about in those proposals again -- you know. These are the five funds we're recommending today. Look at this great performance.

Q Okay.

A Even to a single fund -- you know, it's a five star fund. It did 18 percent last year, in 2008. It's amazing, you know. You've got to put your money in it.

Q And you know, I think it's obvious, but what are the limitations of hypothetical performance?

A The concern is misrepresentation, to the client.

Q Right, and define that for me.

A I guess misrepresentation as in -- you know, if I'm there that's one thing, or a Compliance person's there. But we're there 5 percent of the time. I don't know how it's being sold.

Q You don't know what the sales guys are doing?

A Exactly.

Q Okay. So the sales guys may very well say "This is

our historical record."

A They may.

Q Okay, and that -- when you say the concern is with misrepresentation, is that what you mean?

A That is what I mean, that a sales person is embellishing, or --

Q Right.

A I mean, benefit of the doubt or just not saying anything. I mean, they say, well, the disclosures. That's in reality what.

Q So the other concern would be whatever you call it on the first page, the client may not look at page 20, where it says "This is hypothetical performance." Is that the other concern on the misrepresentation side?

A Yes.

Q So where the financial advisor might be silent and just let the client assume whatever they want about the --

A There is a concern there, yes, the education kind of aspect.

Q Okay.

BY MR. ELLIS:

Q Can I kind of take a step back, because I've heard you guys use the word "model" in two different ways, and I want to make sure we're really clear on how we're using this going forward.

I think when Tom is talking about model performance, he's referring to this is actually how in 1999, if you had invested into a model at that time, here's how it would have performed."

The advertising that it sounds like you're talking about says if you took our current recommendations today, and if they would have been in place in '99, here's how they would have performed. Am I understanding what you're saying correctly?

A Right. But I think they're both being presented that way, and we got into this on the phone call. There is a way to do it correctly, and we got into this on the phone call. You've got to go -- you've got to backdate -- you know, your models, to reflect changes that were made along the way, to correctly say this is what we did.

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

BY MR. KELTNER:

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

A Yes.

Q Okay, and that's actual client performance used to market the fund, as opposed to hypothetical performance?

A Right.

BY MR. ELLIS:

Q So in the materials you're talking about that in the presentations that you referred to, the model wasn't adjusted in each year going back to reflect what the model was at that time. It was strictly taking the current allocation that had been recommended to the client.

A Correct.

Q And how it -- okay.

BY MR. KELTNER:

Q I think we're all clear, but the hypothetical is a backward look.

A Yes.

Q It has nothing to do with historical performance.

A Correct.

Q Okay.

A Well, I mean, it is historical performance, but with hindsight it's 20-20.

Q Right, and so, I mean, could anyone generally pick the five best performing funds in the last -- you know, looking back five years? There's no trick to picking the best-performing funds when you're looking with the benefit of hindsight; correct?

A Correct, and that's the fallacy. It's not intentional. I mean, you're just -- when you pick a fund or a group of funds, you're likely going to pick funds that perform well. So they're going to look good. Whether it's one or eight put together, they're just going to look good, because you're not going to pick --

Q Sure, yes.

A But then you're going -- then we're not going to kid ourselves. You're not going to show a client like, oh, that.

Q You want to pick the best possible funds looking forward, but you also want to pick funds that have a good historical track record?

A Right. As a fiduciary, you want to pick the funds that you feel have the best chance of outperforming in the future. I mean, that's our job.

Q But you're going to put this in front of a client. You obviously don't want to show --

A That's the rub.

Q You don't want to show them a fund that lost 20 percent the last five years?

A Yes.

Q Okay. So when you were running this group, the performance that was given, that your group put together that was given to brokers, that was given to clients, that was all

hypothetical performance, right?

A Yes. It was up, yes, to a point.

Q Okay. So it wasn't an historical track record?

A Correct.

Q Who was involved in putting together those pitch books or PowerPoint presentations?

A The original ones were already kind of in place with Chip McNeil, and then approved by Compliance. I did very, I did not modify it a lot. Let me just back up. With Chip, he -- the reason why they were in place because he was doing this with separate account managers.

Do I need to distinguish the separate account managers? It's really the same asset allocation approach, but instead of putting mutual funds into the sleeve, you're putting in these 100,000 minimum separate account managers, where the client actually owns the positions.

It's not a mutual fund. So it's higher minimums. So you'd have a million-dollar -- you know. To allocate between seven managers, you'd need at least $700,000.

MR. CRAINE: You just let him ask a question and it will be better for you and better for him.

THE WITNESS: Okay.

MR. CRAINE: Okay.

BY MR. KELTNER:

Q So the fact that you all were using hypothetical

performance, I think I've seen some of those old presentations, and we might look at one or two here in a minute. It wasn't a secret that you were using hypothetical performance numbers, was it?

A No.

Q To people in your own group, to the people you reported to?

A No.

Q Okay.

BY MR. KING:

Q How do you know that?

A I guess just educated. I mean, well -- you know, Jason and I were -- you know, we work together. I think Jason was hired to kind of take over that process of mutual funds, the allocations and things --

BY MR. KELTNER:

Q And that's Jason D'Amato?

A Yes.

Q And so you guys worked hand in hand very closely?

A Yes, oh, yes.

Q Okay, and so Jason would pretty much know everything you know?

A Yes, yes.

Q Okay, I mean, he would have understood that these numbers that you all were giving the clients through brokers,

while you were there, were hypothetical in nature?

A Yes. I mean, I hope.

Q Okay.

A To Michael's point, I guess I really don't know what was in his head, but I hope he knew, as a CFA and an educated person building these models.

Q Okay, and he would have seen some of these pitch books, right?

A Yes.

Q Okay, and when would he have seen them?

A Well, he took over that proposal generation process. That's why he was hired, to take over that function.

Q Okay. So D'Amato, what time frame was he involved in putting the pitch books together, for lack of a better word?

A Right off the batt, just again depending on when he was hired.

Q Okay, and when -- you think that was later '03, early '04?

A Yes. I mean, I could maybe on a break. I could -- you know --

Q Think about it?

A Think through the time line some.

Q That's okay for now, but if you think of something

different, if you think of it as a different time frame?

A Well, it's not really a time frame. I could probably zero it in, though.

Q And who helped Mr. D'Amato put those pitch books together?

A No one, until we hired Seth.

Q Okay, Seth Hare?

A Yes.

Q And so --

A Sorry, go ahead.

MR. CRAINE: Good job.

BY MR. KELTNER:

Q I'll try not to cut you off. So when the client -- you know, fills out their questionnaire and they give it to the broker, and then the broker, I assume, sends it to the Investment Advisory Group --

A The broker would present it to their client.

Q Well, no. The broker gets the questionnaire?

A Oh, yes, yes.

Q And they fill out their profile and this is my age and this is my risk tolerance. Is that the type of information?

A That's how the process works, yes.

Q Okay, and then that questionnaire goes to the Investment Advisory Group; is that correct?

A Yes.

Q And then what happens?

A Then Seth, Jason and myself, depending on the time, would generate a proposal.

Q Okay, and does that --

A With the client's name on it.

Q And does a lot of that depend on just who happened to be around, who happened to be available in terms of who put it together?

A No, to put it tactfully -- you know, it's a little bit of a mundane-type job. So -- you know, Seth was hired. I hired Jason to do it, because you could be grinding out 15 or 20 a day, and then eventually Jason and I hired Seth to do it.

Q Okay. So it sounds like today you're certainly aware of the limitations and concerns about using hypothetical performance; is that fair?

A You mean as a Good Samaritan. I mean, I know -- I mean.

Q Well, earlier you talked about the risk of misleading investors --

A Oh, I think we have a duty to do the right thing.

Q Okay, and you know, today you know there's a risk around -- we talked earlier about the risks, about how that could be misrepresented to a client or a client might be

confused?

A Yes.

Q Did there come a time where you wanted to change how you presented performance, or was there ever talk about --

A Yes.

Q Okay. Tell me about that.

A There was a time -- and I think it was right after Jason and Seth were hired -- whereas, if we were to advertise hypothetical model returns, we need to build these models to be as accurate as possible.

When I say that, to take into account any changes along the way. One thing we haven't talked about is the actual performance of the clients, you know. You get a model here and the actual performance is what they do. If you want those two, if you want less dispersion between those two, you've got to go back into your models.

You would simply do that by taking into account changes. You make fund changes you made along the way, and allocation changes.

Q So that's what you're talking about now, and that's what I was loosely using as the term "model performance" earlier.

A Yes.

Q Where your model actually tracks the investments

that actual live clients were in; is that what you're talking about?

A That's right.

Q Okay. So assuming you control for mistakes in allocation and some timing differences and money in and money out, what you're talking about now and what I described as model performance, you would expect then to see the actual client performance very close to the model performance, right?

A That's correct.

Q Okay. So it's more of a true historical performance number, if you can control for those other variables?

A Yes.

Q Okay, and so there were discussions about moving to this type of model performance?

A Yes.

Q Okay, and then when did those take place?

A I want to say '04.

Q And who was involved in these conversations?

A You know, I think it was -- you know, I don't know if it came from Compliance or the responsibility I felt. I can't recollect the reason why, but I know if you -- just against the, to be the good steward of the program. I mean, if we're going to do, if we're going to advertise model performance, we should do it right, you know.

Q Okay, and so as another way to look at this, you wanted -- when you're advertising this stuff, you wanted it to represent what the actual clients were getting?

A Well, and I also wanted to do it to brag, because the analysis I was doing was we've done well, you know. I've done well. Let's promote that. Let's promote that these were -- this is the actual changes. I mean, I still think, like you said, you can't say this is the actual performance, like you could with a true composite. But you could say look, these take into account changes we made along the ways, funds we made mistakes in. They're still in there. We didn't take those out. We kept them in there until the point where they were sold.

Q And that type of performance reporting should result in a deviation between the model and customer performance that's relatively tight; correct?

A Yes. On that, you would a couple of hundred basis points because of fees. I mean, yes, very tight or fairly tight.

Q Okay, and since we're there, I'm trying to remember the fees on this program, were they around 150 basis points?

A They originally were 2 percent on the first tier. They might have come down to 150.

Q And I understand there was perhaps some flexibility

for different clients?

A Yes, there was discounting built into it.

Q Okay, perhaps for bigger clients, that kind of thing?

A Really a broker-client, at their discretion. There was, I recollect, a 30 percent. There was something built in. There was some discretion in there, but I don't remember what it was.

Q Okay, and as far as the actual compensation for the individual brokers, I guess was there a grid and then -- you know, they got some percentage of the 150 or 200 basis points?

A They got 45 percent.

Q So almost half of the commissions or the fees that were paid to the advisory firm went to the broker?

A Correct.

BY MR. ELLIS:

Q Can I clarify? Before 2004, did you do anything to memorialize your contemporaneous changes in your investment allocation, or your changes in fund managers, that would allow you to basically keep track of what your model did from month to month?

A Yes. That was at the advice of Compliance.

Q And how did you do that?

A Well, write-ups on any fund changes. Two things.

One, just kind of internal due diligence, why a fund was changed, replaced, why the new manager. Then an e-mail, because that's part of the active management aspect of the program to send out. "We switched this fund for this, because of all these XYZ reasons."

Q Okay. Did you have anything in place from 1999 to around 2004, when you're talking about, that you kept track of the performance as Model 1 or Model 2 or Model 3, and the client had invested precisely according to that model?

A We had certainly the performance reports, yes.

Q With funds specifically from that model or just from actual client returns?

A Well, both, because the client went into that model.

MR. KELTNER: I guess this might be --

THE WITNESS: Go ahead.

BY MR. KELTNER:

Q I don't want to cut you off. We can get some follow-up with anything else you've got. But it might be a good time to talk about how you tracked the actual client performance. We've heard talk of a software called Greenhill?

A Greenhill's the vendor, a third party vendor was used from when I started to 2004 or 2005.

Q Okay, and what is the Greenhill software to you?

A It takes a download. The assets were held at Bear Stearns' facility and it takes just a dump and generates the performance of the client. So it takes in beginning market value, any withdrawals, redemptions, contributions during the way, and then ending value, dividends and generates the performance, the actual client performance.

Q Okay, and those were done quarterly?

A Yes.

Q Okay, and were those performance reports generated and sent to the client?

A Yes.

Q And when we talk about performance, is that essentially an IRR, internal rate of return that reflects the actual cash flows in and out of the account?

A Yes.

Q And then this Greenhill, how is it used? You said it was used for client statements. Was it used by your group in any way, in terms of -- you know, internal tracking or --

A Yes. I had done -- I know I had done some analysis on just looking at performance over time versus benchmarks and stuff like that. But it would go Bear Stearns to Greenhill. They'd generate the reports, send them to us.

Actually, they didn't -- they'd generate, massage the numbers, and then it would come to us, and we would actually generate the reports, print them out in color, review them and then mail them out.

Q Okay, and so then what happens to that Greenhill data? Is it preserved? I mean, would you keep each quarterly report?

A Yes, yes.

Q Okay.

BY MR. ELLIS:

Q So maybe with that in mind, I can clarify then when we were talking about what I was trying to get at before.

In order to determine what, say for example, Model 1, how it performed in 2000, was there a record in Greenhill or elsewhere that kept track of how bills and market allocations performed, or would you have to simply look at all the clients that invested according to Model 1?

A You would have to do -- it wasn't flip the switch. You'd have to kind of do a little leg work, but you could generate that report.

Q And it would be based on actual composite performance from a client?

A Yes.

Q Sorry, because I ask these ten-part questions. It wasn't necessarily that there was an account in Greenhill that is Model 1? They just sort of tracked that model's performance, so that it's pure performance?

A Correct.

Q Okay.

BY MR. KELTNER:

Q Could you not push a button, but could you go in and tell Greenhill "Aggregate these 15 growth accounts and tell me what the aggregate performance is," or did you have to kick them all out to a spreadsheet and then manipulate it?

A It was -- no, you could not. They might have had that service. You know, maybe that was something else they had, but no, you would not do it.

What you would have to do is -- I don't actually know how I did it, but you would have to identify what's a Model 9, what's a Model 8 by either account number, and then just generate those segregated accounts.

Q So you might generate all 15 accounts, and then would you take a weighted average or would you just kind of eyeball it and --

A It would be a weighted average. You're right. I think it would have to go to a spreadsheet.

Q Okay. So you might kick out all, whatever. We'll say there's 50 growth accounts. You put them all in a spreadsheet, get the internal rate of return for each one and then just weight it?

A Weight them out.

Q Weight it by the end of year balance or something like that?

A Yeah, either that or you pick a representative account.

Q Okay.

BY MR. ELLIS:

Q Was there anything in Greenhill that would identify which account followed which model?

A No.

BY MR. KELTNER:

Q Was there a system in numbering the accounts that would tell you? In other words, did they have different prefixes or could you tell by just looking at an account number what strategy it was?

A I don't think so.

Q Okay. So it sounds like you had this Greenhill capability to generate composite performance; correct?

A For individuals.

Q Yes, for individual accounts?

A Yes.

Q And we talked a few minutes ago about discussions about maybe we should get, move from true hypothetical performance to something more like historical model performance. Was there discussion about going to composite performance?

A No.

Q Okay. So what came of these discussions about

maybe we should move to a more true model performance?

A Partly, as like I said, is to kind of maybe promote the performance more verbosely, you know. If we've done this well, let's not use hypothetical.

I mean, people could see through that. That's a little bit of a crutch. If we're actually doing this, let's try to promote it as actual performance, and for regulatory reasons.

You know, I think at the time the SEC was kind of had some, I don't know, coming down, was frowning upon these type of hypothetical look-backs, and promoting that as actual performance.

Q Okay. So I think I understand the motivations. Did anything come of the discussions, or did you continue to use the hypothetical numbers?

A No, it was done. They were built, for lack of a better word. It was complete.

Q When was that? When did that happen?

A The '04-'05 time frame.

Q Okay. So you think --

A It was a project. It was a project for Seth and Jason to do. I oversaw it, we did it. But that's only -- I don't know what happened beyond that. I mean, you've got to keep updating it.

Q Right, okay. So when that starts happening, are

you doing it on a go-forward, or are you going back and pulling up all the --

A Going back.

Q So you're going back and trying to essentially build the model?

A Yes. I had to provide them, before they came there, all the fund changes that were made. I remember the project vividly. Fortunately for me, there wasn't too many. So we had to go back to -- I would assume, probably around my inception or even --

You know, because my inception was basically the program's inception, and go through and build all those changes into this model, and you come up to say 2005 and it's done. So now that model hypothetical thing is more accurate.

Q Okay.

A But now moving forward, you've got to still -- that was the hard part. The easy part is them okay, we made a change. Let's lock it into the model.

Q Okay, and when you say I remember the project vividly, what did you have to do?

A I had to dig through files and like we talked about, all the notifications. When did I make this fund change and files, e-mails. It wasn't that difficult.

Q Okay, and so but it sounds like when did you -- remind me what year you started?

A 1999.

Q Okay.

A So yes, June '99 or July '99.

Q So you had to go back physically to '99 and reconstruct, to a degree, what you had done on each model?

A Yes.

Q Do you think you were able to accurately do that, or were there gaps?

A I'm confident it was accurate.

Q Okay. So let me ask you another way. When we go back and we download the Greenhill data, and we compare actual client performance to the numbers that were reported to clients for '99, 2000, 2001, these numbers you reconstructed, are we going to see a deviation or --

A You're going to see a deviation. You'll always see a deviation, but it should be tight, fairly tight.

Q Okay, because one of the questions I asked you before, and we'll look at the numbers here in a minute, there were years where you all reported 18 percent returns with a market loss of 9.

A Yeah.

Q And those numbers were carried forward into future advertisements. So do you think those numbers reflected what clients actually got, as opposed to a historical or a model with the benefit of hindsight?

A I couldn't say.

Q Well, that's why I'm asking you how confident you were in the work that you did looking back, because --

A At the time, I was confident. I can't put my stamp of approval on it today. But when the analyses were done and I did the regression, too, towards actual performance reports, it looked good.

Q So you went back and compared the stuff to actual client reports from 1999 --

A Greenhill.

Q From Greenhill. So at the end of this project, you've reconstructed the models, and you've talked about model performance. Then as kind of a sanity check or a check, did you go back and compare to the actual client performance?

A Yes.

Q Okay.

BY MR. ELLIS:

Q Were all MFP client accounts pulled into Greenhill? Did it show all, the whole universe of client account returns?

A Yes. I mean, unless for some reason that, which would be a mistake, unless it was never added into Greenhill.

Q But it was supposed to have everything?

A Yes, yes.

Q Go ahead.

BY MR. KELTNER:

Q Okay. Well, let's go ahead, and here in about one minute, we'll take a break. We'll come back. We'll go quickly through a few examples of what we're talking about, just to set context, so we all kind of know exactly what we've been talking about.

A Okay.

Q Then we'll transition over to a few questions regarding the bank.

A Okay.

Q So you want to take an hour?

MR. CRAINE: We can go off the record.

MR. KELTNER: Yeah. Let's go off the record.

(Whereupon, a luncheon recess was taken.)

* * * * *

A F T E R N O O N S E S S I O N

MR. KELTNER: Let's go back on the record.

Mr. Zarich, before we took a lunch break, we were talking through some of the issues related to SAS and MFP and some of the performance reporting issues. So what I wanted to try to do now for a minute is to go through a few documents that you think may represent the pitch books and things like that that were used for the MFP programs and SAS programs.

Some of these documents were produced to us this morning, and so they're not Bates-stamped, and some of the others aren't either. So we'll work our way through them, and it may be a little tedious, because we may identify some things by --

We'll be very careful to talk about what we're talking about, so that when somebody looks at this record later, you can tell from the context of what we're saying specifically which document we're talking about.

So I'm marking as Exhibit Number 1, it's a document that was in your production this morning. It's entitled "Investment Proposal." It appears to be perhaps a prototype that's used maybe for other investors. Why don't you just go ahead and tell me what Exhibit Number 1 is?

(SEC Exhibit No. 1 was marked for identification.)

BY MR. KELTNER:

Q Just for the record, I'll note it says "Investment Proposal" on the cover page, has the Stanford Group company logo, and has a place that looks like it's set forth to put the client name and the date.

Then the following page says "Introduction" and it has some information regarding the Stanford family and Lodis Stanford.

A Well, it's clearly you're right, some kind of

proposal. I'm not sure it's an investment proposal, asset allocation recommendations, mutual funds recommendations. Should we just -- you want to just go through kind of --

Q Sure. I mean, if you go to what appears to be the sixth page --

A Mm-hmm.

Q It's entitled in the upper left-hand corner "Mutual Fund Partners Plus, Hypothetical Performance."

A Okay.

Q Do you see that page?

A Mm-hmm.

Q Then it says "Growth of assets on the first chart"?

A Yes.

Q Do you recognize this type of information?

A I do. The content -- let me rephrase that. The graphics looks to be I would say pretty confident is a Zephyr Analytics, which is a tool to generate graphs and such, and statistics and analysis such as these.

Then it's clearly again the models we're talking about, this particular one, income model. My guess would be this was around the time when the nine models became five, as we spoke of this morning, and those fives were numbered. They were named "Income Growth," et cetera.

Q And the pages behind the page that we're on now entitled "Mutual Fund Partners Plus, Hypothetical

Performance," the following pages, are those files of the different funds to which money was allocated?

A Correct. The assumption here is the funds on the page Hancock Classic, Cartesian, Calamos, Keely, that have these percentages here, that combined 100 percent would make up Stanford MFP Plus.

The Stanford MFP Plus model benchmark should be the weighted indices for each of these funds corresponding to those percentages. But I have no way of telling that. Then of course the S&P is the S&P 500 index.

Q Sure. So looking at this page that we started at, the one entitled "Mutual Fund Partners Plus Hypothetical Performance," so does this generally represent what we had talked about before, the hypothetical performance with the lookback?

A Potentially. I mean, yes.

Q Given the title, is that what you think it represents?

A Yes. It's a model allocation, I would think, but I couldn't be certain. I mean, again, in all likelihood, it's this allocation of funds that's making up that model.

Q Well, let's flip real quickly toward the back of the document, and look for the pages entitled "Glossary" in the upper left-hand corner. Then behind that, there's a page entitled "Disclosures."

A Is this all the way back? This is CD. Yeah. These are looking more like possibly what I was using.

Q Just for the record, this appears to be the sixth page from the back of the document. At the top of the page, it says "Disclosures." Are you on the page entitled "Disclosures"?

A I'm in Glossary, sorry.

Q It's just behind that.

A Yes.

Q Okay. So you see the first paragraph underneath the chart that starts "Calculation of Historical Returns"?

A Yes.

Q Okay. So it says "Calculation of historical returns for the total portfolio and total portfolio index are based on the proposed asset allocation and uses the same allocation for each historical period." Let's see. Then just skipping forward, it says "These hypothetical historical performance returns are net of manager fees only and does not account for fees wrapped of any associated account.

"The hypothetical historical performance allocations assume a quarterly re-balance. These are not actual current portfolios, but hypothetical historical allocation based on the allocation assumptions made in the proposal. Actual performance can and will vary. Past performance is not any indication of any future results."

A Mm-hmm.

Q So does this generally describe how the hypothetical calculations were calculated like we talked about earlier today? Is this an accurate description of the hypothetical --?

A I don't think it's a description. It's hard to answer that. It's more of a legal question. I think it's an attempt to explain it.

Q Can you tell me what it means?

A It means to me that these performances are based on the allocation that's set forth in this proposal. Yes, the historical performance is based on the allocation set forth in the proposal.

Q Okay, and so as it says here, these are not actual current portfolios but hypothetical historical allocations, based on the allocation assumptions made in the proposal?

A Yes.

Q So what does that mean to you?

A Again, hypothetical. I mean --

Q So is it attempting to explain to the client that this is based on today's assumptions with the benefit of hindsight or with the lookback, as opposed to actual performance data?

A Yes. Or more to your latter point, that this is not an actual client portfolio. This is not an actual

return. This is a hypothetical. It may fall short of explaining that, but it just says -- it does say it's hypothetical.

BY MR. KING:

Q How does it fall short?

A Well, I guess it doesn't get technical into what hypothetical is, kind of how we've been explaining it all day, that this performance is not a stream, a historical stream of current recommendations of funds or whether -- it just uses the word "hypothetical." So I guess it would leave that up to interpretation.

Q Okay, and sometimes I've seen in other perhaps more recent drafts, language to the effect that these numbers are calculated with the benefit of hindsight. Would that be more accurate or give the reader more information, in terms of letting you know that it's a current -- it's essentially a lookback?

A Again, kind of a legal question, and it depends on the audience, because I know what a hypothetical is. I think a lot of people in the business do. But I think to answer your question yeah, you probably could put more simple language in there.

Q That kind of brings me to a question that I thought about earlier. When we were talking about the dangers of using hypothetical performance or the risks around that, I

think one of the things you said, and correct me if I'm wrong, was that you don't know what people say when you're not there or when Compliance isn't there; correct?

A Yes.

Q Okay. What were the FAs told? I mean, were they told how to present this stuff? Were they told make sure that people know this is hypothetical and not actual? You know, what kind of training was there for the FAs?

A There were product training sessions. I don't know the frequency, but we did have them in the Private Client Services Group or Investment Advisory Group. Certainly, when a big part of that was when new brokers and teams came over, and I can't speak to but I'm sure Compliance and Branch had their levels of training as well.

Q But I know that generally there were these meetings. But were the FAs specifically told, when you talk to your clients, you've got to make clear that this is hypothetical and not actual historical performance?

A I don't remember. I would assume yes, but I can't say definitively either I don't remember, or --

Q Now, you talked about Compliance. Aside from general assumptions that Compliance would have reviewed this stuff, anything specific you can point to? You know, do you remember specific people, specific meetings, specific review procedures? How do you know Compliance would read this

stuff?

A Like I said earlier, the presentations that I was working off for those -- you know, I guess until this kind of format came along, it was pretty static. So it was signed off once and probably reviewed periodically as Compliance would do audits.

So it was approved, and then as long as we had made no changes to it, it was good from that point on.

BY MR. KING:

Q Until what was approved?

A The proposal and the disclosures, the presentation. Like this, maybe the one we spoke of earlier, ten pages. So it's like this is what we're going to send out. The format.

Now what obviously changes all the time would be the allocation of the dollar amount, the client name. The format was approved by Compliance.

BY MR. KELTNER:

Q And how would that -- because it sounds like you were using the same format pretty much from when you got there. So I guess first, how do you know it was reviewed by Compliance?

A I remember once looking at it.

Q And who is that?

A When I first got there, it was Rep Poppell, P-o-p-p-e-l-l, I believe. Rep, R-e-p.

Q Okay, and so what do you remember about Rep being involved? What did he do?

A Well, I guess just that, as far as we're talking here. I mean, his job was to -- I think at the time the BD and the RA was kind of blended together. But him and members of his team would come up to Denver maybe quarterly and do their audits.

What -- you know, I probably like mock SEC audits, go through files and make sure the client's agreements are signed and things like that.

Q Okay, but specific to the proposals, what did Compliance do?

A I just recollect that it was really just approved -- you know, and then if it was ever changed, that we would have to get that re-approved.

Q Okay, and tell me about that. How did you know that and did it happen?

A I just think that was -- you know, my superiors trained me on that.

Q Okay, and was there an instance where --

A I mean, there was -- I'm sorry, go ahead.

Q Were there instances where that happened? Well, first, what types of change would require Compliance, because as you were saying, lots of things changed from proposal to proposal. So what would trigger a compliance review?

A I think the language, the verbiage of the presentation.

Q Okay. What do you mean by that? Like give me an example.

A The disclosures, glossary -- you know, the history of the firm, stuff that's not pertaining specific to a client situation. Client situation being dollar amount invested.

BY MR. KING:

Q Was Stanford using a client proposal when you got there?

A Yes, it was just -- again, it was a PowerPoint template. It wasn't a generation system or anything like that. But yes, there was one there.

Q And so how soon after you arrived do you have to get re-approval from Compliance for some change?

A I just -- you know, and I'm again, drawing back far. But changing from the separate account. The program was called Portfolio Advisors, to this new MFP program required something, but I just don't remember who and how it actually happened, and if it was me or Chip McNeil.

BY MR. KELTNER:

Q Okay. We talked a while back or before the break about the discussions that took place about hypothetical, whether the data should be presented as hypothetical or as a model that more closely represented actual performance or

composites, kind of as three different buckets.

Were there any discussions regarding changing how the information was presented to the client? In other words, the document that we just looked at clearly says hypothetical performance, and we talked about how adequate the disclosure was or wasn't.

But were there discussions about changing what it was titled? In other words, dropping the word hypothetical or adding the word historical? I mean, those seem like, just to me, the kind of things that you would run by Compliance. Is that true, or were there ever those discussions?

A I don't remember specific to that to disclosures, discussions on that.

BY MR. KING:

Q Who drafted the disclosures?

A I don't know.

Q Were you involved in drafting the disclosures?

A No, no.

Q Were you consulted on drafting the disclosures?

A No, because they are -- I think it was more or less stock language -- you know, when I --

Q What do you mean by stock language?

A From previous proposals that were already in place, other programs.

Q Were the disclosures that were used in the MFP

program inherited from its legacy program?

A Yes, yes. And I don't know about these ones here, but for me, they were.

Q Oh, so that might not have required Compliance's involvement, correct, on the disclosures?

A It may be. Again, I don't know, and I seriously doubt I wrote the disclosures for like you said, the legacy programs.

Q Do you know remember having specific conversations with anyone in Compliance regarding historical performance results for this mutual fund wrap program?

A No, I don't recollect.

Q So other than Compliance just doing their general things that they do, reviewing account forms and doing quarterly SEC-type audits, you don't know that they were looking specifically at client proposals related to the Mutual Fund Partners program?

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

MR. KELTNER: I'm just trying to get a sense for how these thins may have changed over time, and you know, which forms you may recognize. I want to go through just a few more and kind of walk forward in time.

So I'm going to go ahead and mark as Exhibit Number 2 a document that I'll represent to you that it's an e-mail with an attachment, entitled -- it's an e-mail exchange between Seth Hare and Charlie Rawl, on or around July 25th, 2005, and it appears to attach one of these presentations.

I'll just note that you were copied on the initial request e-mail from Charles Rawl to Seth Hare on July 25th, 2005 at 1:38 p.m. You can see --

(SEC Exhibit No. 2 was marked for identification.)

BY MR. KELTNER:

Q I mean, the initial e-mail exchange, if you'd just look at the bottom of the page, you see there where you're listed as a copy on the July 25th --

A Yes, yes.

Q And just for context, again who's Charles Rawl?

A He was a financial advisor with the Stanford Group.

Q Okay, and Seth Hare, I think you said is somebody who worked in your group?

A He was a junior analyst within the group, yes.

Q I think you said he was the third hire that you made?

A Yes, and I should qualify that with Seth, other than Operations.

Q The third --

A Analyst.

Q Analyst, financial?

A Yes.

Q And I think we said earlier today that you, Mr. D'Amato and Mr. Hare at various times prepared some of these presentations?

A Correct.

Q And so this is typical of the protocol, where an FA might e-mail one of the three of you, in this case Mr. Hare, and request a proposal. Then Mr. Hare would pull it together based on the criteria in the questionnaire and then send it back?

A Yes.

Q This is an example of that?

A Yes. Well, it appears to be.

Q So let's go ahead and look at the presentation. I'll note the front page has the Stanford crest, and it says "Prepared for Louis L. Jacob, presented by Charles Rawl."

Just thumb through it real quickly and tell me if you recognize this format? I think I've seen several hundred in this format. I didn't know if this one might be more familiar to you.

A This one has, yes.

Q Okay, and again, just for the record, what is Exhibit Number 2?

A It's an e-mail with a proposal attached.

Q Okay, and just generally, what's the proposal?

A Well, it's to Luis Jacob, presented by Charlie Rawl, Charles Rawl.

Q And what's it presenting to the client?

A It looks to be a proposed investment allocation of $1 million, broken down to the asset allocation, alternative investments, equity, fixed income. It kind of goes into each of those sectors in more depth. Then about halfway through, hypothetical performance.

Q Yeah, let's start on that page there. It's just a blank page, but at the bottom right, it says "Historical Hypothetical Portfolio Performance."

A Oh, yeah.

Q Perhaps the page right before the page you're on. Okay, okay. So again this is describing the performance as Historical Hypothetical Portfolio performance. Looking at the next page, the one entitled "Mutual Fund Partners Plus Income Performance," and it appears to be dated as of June 2005, what is this page represent? I assume you've seen some of these before?

A Yes.

Q Okay. What is this page?

A This is again a hypothetical performance of the recommended model presumably, the model being MFP Plus Income. It shows historical returns going back five years

and various ratios and statistics.

It also compares this model against its balanced weighted index, presumably an MFP Plus income index, and then as well as the S&P 500 index.

Q Okay. I think looking at a number of these, the S&P 500 was the typical benchmark; is that correct?

A I think -- well, the balance benchmark and then the S&P is kind of the recognized standard index.

Q Okay. So again, these numbers here represent the hypothetical model allocation selected today, and then the back-tested or the performance generated as if clients had been in this investment in the prior period?

A Yes.

Q Okay. It's clear to me looking at this that this is not the true historical performance that an actual client would have received?

A Yes, yes.

Q That's consistent with your recollection of when you were actually working there?

A Correct.

BY MR. ELLIS:

Q Based on the date, this says these numbers are as of June 2005. At what point did people on your team start reconstructing model performance from past years? Did this represent model performance or is it hypothetical back-tested

performance?

A When we were talking earlier about going back through? You know, it was prior to this, because this is about when I was on the way out to my next assignment with the company. You know, if we can remember when Seth was hired, you know. Somewhere in '04, late '04 maybe, somewhere in '04.

Q And really, I'm trying to clarify whether these numbers represent the whole hypothetical performance --

A I understand, yes.

Q -- or the newer version that --

A And I can't say.

Q Okay.

A Not being able to -- you know, just on this.

BY MR. KELTNER:

Q One of the things you told us earlier was that this discussion about using, for lack of word, more accurate model performance. In other words, closer to real performance. You said you wanted to do that, because you wanted to demonstrate your real track record, right?

A Close to, a more accurate reflection.

Q Sure, and you said that was, I think, because you were proud of your real track record, and you wanted to be able to show clients that, versus hypothetical, benefit of hindsight numbers?

A Correct. I think it adds more validity to what you're doing, to the marketing efforts.

Q Okay. So what I'm a little confused by is if you wanted people to know that this is your real track record or closer to your real track record, would you want hypothetical stamped on top of it? Do you follow my question?

A Not really.

Q Okay. Well, you said you wanted to be able to show clients your real track record, right, or something close to it?

A Right.

Q Okay, and if you were going to do that, would you call that hypothetical, or what would you call that?

A Oh, hypothetical.

Q Okay, and why is that?

A Well, it still is. I mean, anything that's not, unless it's the client's actual return, it's hypothetical.

Q But what if it tracks the actual model, because wasn't that your goal, to come up with performance numbers that tracked your actual model?

A Right. But it's still hypothetical.

Q Still hypothetical?

A Yes.

Q Okay, and explain that to me?

A I think hypothetical is non-accurate. I mean,

that's not the right word. It's not the real performance. Unless you use the real performance, then it's hypothetical.

BY MR. KING:

Q So when you use the term hypothetical, you mean it to mean anything other than a composite?

A Correct.

BY MR. KELTNER:

Q Okay. So if you were going to use -- if you wanted to be able to present something to investors that was true, historical performance, you wanted to be able to slap historical performance on the top of it, is the only way to do that to do composites? I'm trying to understand, in the context of what Michael just asked you.

A In my opinion, yes, yes.

Q Okay. So you personally, you're at your new firm; they're doing something similar to this -- not say they do. But you're at your new firm, and you're presenting something to clients as a historical performance track record.

Would you do that with anything less than composite data?

A No.

Q Okay, and why not?

A Well, part of it is I've learned that you can't. But it's still, back to your earlier question, it's not the real performance. It's not the actual performance, whether

it's one client or a composite of clients. As much as we did or I wanted to achieve the accurate reflection of the model, it's still hypothetical today.

BY MR. KING:

Q So in your view, all models are hypothetical?

A Yes.

Q Okay. Now when we talk about calculating the model with the benefit of hindsight, would you agree with me that are two different types of models. One done without the benefit of hindsight, and one done with the benefit of hindsight?

A Yes.

Q Okay, and can you tell me the difference is between those two?

A I mean, I guess -- wait, one with the benefit of hindsight?

Q Right. You can have a model that doesn't utilize hindsight as an investment technique; correct?

A Yes. I guess that would be an actual composite of performance.

Q Well, now, couldn't you just have a model portfolio that's not an actual investor, a model portfolio of five securities that if that were an investor, that that's what we're going to have this year?

A Yes.

Q Right, and those would not have to be picked with the benefit of hindsight, right? You could pick those today and say if you invest in this, this is our model?

A Oh, sure. Sure.

Q So not all models are done with the benefit of hindsight?

A Correct.

BY MR. KELTNER:

Q And just to follow up on that, I mean, you said at some point that's -- it sounds like that what you were trying to get to, where your actual model was what you were presenting the client?

A Yes. Well, I think ultimately the composite returns, right.

Q But before -- okay. Do you know who Steve Reardon is?

COURT REPORTER: I'm sorry, the name?

BY MR. KELTNER:

Q Steve Reardon?

A I know the name, but I can't --

Q Okay. Are you aware that the Stanford Group and the advisory group brought in an outside consultant to compile composite data?

A I have heard that, yes. I've heard that.

Q Before he came in to do his work, did Stanford

have -- did Stanford present to clients, in pitch books or otherwise, composite data or was it all, as we talked about here, hypothetical?

A As far as I know, hypothetical.

BY MR. KING:

Q Now, was it all hypothetical with the benefit of hindsight, or was it just merely a model?

A I guess I don't -- the semantics are kind of not all clear yet.

BY MR. ELLIS:

Q If I understand right, once you said you remember with clarity this process where you had Jason D'Amato and I believe Seth Hare go back, and you provided them with all of your investment recommendations, and they reconstructed --

A Yes.

Q -- what your investment models would have, what they performed during the past, rather than just taking them from an allocation and looking back with it. That's our distinction between a model versus a model with hindsight.

BY MR. KELTNER:

Q In other words, one represents what you actually told your clients to put their money in; the other one is sitting here today, I'm going to pick the best possible portfolio. That's the hindsight situation, sitting here today.

A Right.

Q I think what Mr. King is talking about is this is my actual model and you know, taking a hypothetical whatever it is, $1,000, put it in there, this is what the return numbers were going forward. You know, one reflects your actual model that you had investors in.

I mean, so when he's talking about model -- you know, with the benefit of hindsight, that's sitting here today, versus model performance based on your real model, your actual allocation models, okay.

So what we're trying to get our arms around is which numbers are going to clients? Were they all models with the benefit of hindsight, or were they -- did they reflect your actual allocations?

A I would say hindsight, until this project, as Craig brought up and we talked about. But and the project was completed, but I do not know what happened after that. So there was a period of time in this '04-'05 where the models were used in hypothetical performance.

Q With the benefit of hindsight?

A No, without. Like we went through, let's say, January 30th of 2004, and recreated all the models to reflect the actual changes in the portfolios.

MR. KING: Let me see if I can clean this up for you. During your tenure, did Stanford Group provide any

composite numbers to clients in its I guess what did you call it?

MR. KELTNER: Pitch books.

MR. KING: In its pitch books?

THE WITNESS: Composite, no.

BY MR. KING:

Q During your tenure, did Stanford provide any model numbers to clients in its pitch books that did not utilize hindsight?

A I don't know.

Q During your tenure at Stanford, did Stanford Group provide to customers in its pitch books model numbers that did include numbers that used hindsight?

A Yes.

Q And how long did it do that? How long did it provide numbers -- well, when did it stop using hindsight in its pitch books?

A I don't know.

BY MR. KELTNER:

Q Well, we've talked a lot around this project that was done, and what we're trying to pinpoint is when that was done and when changes were made based on that project?

A Yeah, I apologize for not knowing when. I remember the project. I remember doing the analyses, and I don't remember the follow-through, how it transpired into this.

Q So sitting here today, do you know one way or another whether they stopped using the models with the benefit of hindsight?

A I do not know, I mean, not equivocally. I don't know.

BY MR. KING:

Q So that wasn't done during your time at Stanford?

A The models were, yeah. This project we did?

Q No. You don't know whether they stopped using hindsight in their models during your time there?

A Right.

Q Okay. I want to make sure I understand. You're running this program, right?

A Yeah.

Q And you're sending out the pitch books and you're responsible, at least to some degree, for the historical performance reporting, right?

A Right.

Q Okay. But you don't know whether the numbers being provided to clients were with hindsight and at what point they stopped using hindsight?

A Correct.

Q Okay. Explain how that could be to me. I mean, how is it that the person running the program doesn't know whether or not the numbers that are going to clients in these

pitch books are utilizing hindsight or not?

A I guess years, a lot of years have gone by since I've been there, and I cannot say one way or the other, under oath, for a fact, that I know that the project I initiated got completed and was carried forward.

I don't know. I mean, it was done and there was a period of time where I think things were good. But what you're asking me is under oath do I -- no, I don't know.

Q Okay. So you initiated a project whereby Stanford would stop using hindsight in its performance reporting to clients?

A Yes.

Q Did Jason D'Amato work on that initiative with you?

A Yes. Jason and Seth.

Q And what was Jason's role in particular?

A He really passed the torch on finding the MFP, MFP Plus, now SAS program to him. Seth was hired as another junior analyst to do more kind of the day-to-day proposal generation.

Q But in the actual process of converting from models with hindsight to models that didn't involve hindsight, what was Jason D'Amato's role?

A He would have been over that project. I mean, you're right. I was in the charge of the department. I had the ultimate responsibility. But he would have done the

day-to-day crunching the numbers, the analytics, probably with the help of Seth.

Q So is there any doubt in your mind, as you sit here today, that Jason D'Amato understood that prior to you initiating this project, the numbers that were being provided to clients included models that utilized hindsight?

A I'm sorry, one more time?

Q Is there any doubt in your mind that Jason D'Amato, prior to you initiating the project to convert away from hindsight, knew that hindsight was involved in the numbers that were being provided to clients?

A Well, I mean, we asked that this morning. I don't see how we couldn't have. I mean, of course he knew.

BY MR. KELTNER:

Q And why is that? Is it because he worked hand in hand with you --

A Well, he's a bright guy. He's a CFA. I mean, these are clearly -- well, I can't say these, but the process of doing hypothetical returns.

BY MR. KING:

Q You talked to Jason D'Amato about the fact that the numbers used in the previous project were numbers used with hindsight?

A Yes.

BY MR. KELTNER:

Q And who actually calculated the models with hindsight? Was that you or was that Jason or is that Seth?

A Well, software does a lot of it -- you know, that generates. You have to plug in the funds and the weightings, the allocations.

Q But who did that?

A Mostly Jason and Seth. I mean, all of us at some point.

BY MR. KING:

Q Sure. So there couldn't -- if you're the one plugging in an allocation as of today, and I assume you tell the program to kick out a hypothetical historical return; is that correct?

A Mm-hmm, mm-hmm.

Q Yes?

A Yes, I'm sorry. The program kicks out.

Q So you're the one -- somebody is putting in the allocation -- you know, these ten funds and telling it to kick out a hypothetical historical track record?

A Yes.

Q With the benefit of hindsight sitting here?

A Yes.

Q I mean, it has to be.

A Yes.

Q You're putting in the allocation that day, right?

A Right.

Q And you're telling me that the primary person who did that was Jason D'Amato?

A Yes.

Q Who picked the mutual funds?

A I did. I did for years and then Jason.

Q Okay. So give me a year where you know that hindsight was being used to develop these models?

A Again, this hindsight thing. Hindsight's always used to look at, I mean, a track record. You're always using hindsight, but as far as presenting it with a historical hindsight numbers, always when I was there.

Q Okay, so let's say for 2004. Would you agree that hindsight was used in 2004?

A Yes.

Q Who picked the mutual funds in the hypothetical model with hindsight for 2004?

A It was right around -- you know, when I was passing the torch to Jason. Again dates. I mean, he was hired to take over that program. I don't know when.

Q Even if he wasn't picking them, is it likely that Jason was the one inputting them into the software and generating the models?

A Yes.

BY MR. KELTNER:

Q If I understand right, when you say you're always doing some amount of hindsight, it sounds to me like you're referring to the fact that when I'm picking a fund for my client's use, I'm obviously going to look at the past track record. Is that --

A I just think the word "hindsight" is getting thrown around a lot. Yeah, I think you do. You look. You look at a historical, just like you would look at anything else. But that's just performance.

MR. KING: But we're not talking about the selection of the funds. We're talking about the presentation of data to the client. That's the context.

MR. CRAINE: Exactly. I wanted to clarify it, because he said yes, I always used hindsight. But it's not like he -- you were probably saying of course I look back at past returns when picking funds and directing them to clients. I did want to get that --

MR. KELTNER: Well, that's what Michael was asking about, selecting funds.

Real quickly I want to fly through a couple of these other presentations. I've had marked as Exhibit Number 3 a document that appears to be another pitch book. It's entitled "Stanford Allocation Strategies," and it says "Prepared for Barry Rumac," R-u-m-a-c, and "Presented by Nigel Bowman." Do you know Mr. Bowman?

(SEC Exhibit No. 3 was marked for identification.)

THE WITNESS: I do not.

BY MR. KELTNER:

Q Okay. Just flipping through Exhibit Number 3, again does this appear to you be another standard pitch book for MFP/SAS?

A Yes.

Q And again, going to the page entitled "Allocation Performance" or "Historical Allocation Performance," do you see that, Historical Allocation Performance?

A Mm-hmm, yes.

Q I'll just note that the term "hypothetical" is dropped from the page there. Did you have any discussions with Mr. D'Amato or anyone else about the idea of dropping the use of the word "hypothetical"?

A No.

Q When you flip to -- you know, the next page, let's start there, it says "Stanford Allocation Strategies, SAS Growth Performance." Do you see that page?

A Yes.

Q Are you familiar with this type of format?

A Yes. It's the same Zephyr Analytics, just different arrangement.

Q Okay, and you see what's in the chart in the upper

right hand corner that's got the dates running across the top?

A It's a historical performance calendar year, with this particular SAS growth model, and then again the blended growth model index, and then again the S&P 500, and it's calendar year returns from 2006 back to 1999.

Q It appears to have an "As of February 2007" date in small font there?

A Yes, correct.

Q Flipping to the disclosures at the back real quickly, and this is going to be the next to last page, do you see that page?

A Mm-hmm.

Q Okay. The first paragraph underneath the "List of Funds," I guess.

A Mm-hmm.

Q It talks about again, the use of hypotheticals. It says "These hypothetical historical performance returns are net of manager fees." I'm skipping forward. "The hypothetical historical performance allocation assumes a quarter re-balance. These are not actual current portfolios, but hypothetical historical allocation, based on the allocation assumptions made in the proposal. Actual performance can and will vary."

The sentence the talks about the hypothetical

historical performance, and then goes on to talk about that the allocation is based on allocation assumptions made in the proposal, I mean, does that sound like the hypothetical performance that you were using when you were there, where it talks about based on the assumption, the allocation assumptions made in the model?

A It's similar, but I don't know if it's apples to apples. But I'm not sure. As far as the consistency of the language?

Q Right.

A I don't know.

Q If you go back to the performance page that we were on a minute ago, the page entitled "Stanford Allocation Strategies, SAS Growth Performance," and you know, we looked at the historical track record going back '99, 2000, 2001, 2002, 2003.

If I were to tell you that those numbers matched the numbers that were being used in prior years when the staff was clearly labeled as hypothetical, but it's now labeled as historical dropping the title "hypothetical," is that something you would have done when you were there? Would you have been comfortable presenting this stuff as historical without a hypothetical disclaimer?

A No.

Q Okay, and explain to me why not.

A Well, hypothetical, I mean, I guess it could be misleading here to say historical allocation. I mean, it is misleading. It implies that it's the actual performance of the portfolio or a composite.

Q Okay. Which implies that?

A This cover page saying "historical allocation performance."

Q Okay, and to you, the use of the term "historical allocation performance" to describe hypothetical performance is misleading?

A Yes.

Q And that's something you would not have done when you were there?

A I hope not.

Q Sitting here today --

A I don't think so.

Q And you absolutely would not be comfortable with it?

A Correct.

Q And again, not to belabor the point, but is the danger here that you're calling this stuff historical performance in the front of the book, and you're dropping a sentence at the back of the book that says something about "hypothetical performance"?

A The danger is misrepresenting your performance.

Q Right. So the danger is that the client is going to think this is true historical performance generated by the manager?

A Yes, and the financial advisor. And/or the financial advisor.

Q Just real quickly, I'm going to hand you a document that I'm marking as Exhibit 4. I'll represent to you that this is what we believe to be a very current pitch book. It was produced to the SEC in the course of a recent examination.

It's entitled "Stanford Allocation Strategy, SAS Proposal," and it's prepared for Jane Foster, presented by Tom Woolsey, or Woolsey, W-o-o-l-s-e-y. First, do you know Mr. Woolsey?

(SEC Exhibit No. 4 was marked for identification.)

THE WITNESS: I do not.

BY MR. KELTNER:

Q Flipping to the seventh page, and it's a document entitled "Historical Performance" at the top?

A Mm-hmm.

Q Do you see that?

A Yes.

Q Okay, and again this a track record for the growth. Does this appear to be a track record for the growth fund or

the growth model?

A It does. It's a track record for SAS. It looks like just returns -- well, in one risk parameter. But track record for SAS growth model versus just the S&P 500.

Q Okay, and again this is entitled "Historical Performance." No use of the word "hypothetical." Again, you think that's misleading, right?

A I do.

Q Okay. Based on -- you know, you said you talked a number of clients over the years. You sat in on pitches. Your typical client walking into the office, do you think your typical client understands the difference between hypothetical and historical performance?

A I probably couldn't answer that. I mean, everyone's different. Some do and some don't.

Q Okay. But if you slap "Historical Performance" across the top of the page, surely you can tell me what the typical client would conclude from that?

A It implies that it's the actual performance of this particular model.

Q In other words, if I were a client, and I had invested in this model at the beginning of the year, these are the results that I would have gotten; correct?

A Yes, or even back further than the year. It reads to me historical performance as this model did 12.4 percent in 2007, 14.6 in 2008 -- you know, so on and so on.

Q So somewhere in Stanford's files, I should be able to go back and find a client who is in this model in 2007 that got these numbers, right, or close to these numbers?

MR. KING: If they're in fact hypothetical.

MR. KELTNER: If they are historical.

THE WITNESS: If they're historical composites, yes.

BY MR. KING:

Q I mean, if that -- if an investor in this program were invested on January 1st and stayed in in that current, in the current allocations all the way through the end of the year, then that client would have gotten the numbers on this page, as represented on Exhibit 4?

A That it's implying that, yes.

MR. KELTNER: I'm going to go off the record. We'll take a five-minute break and be right back.

(A brief recess was taken.)

MR. KELTNER: We'll go back on the record. I think Mr. King wanted me to note a few discussions that took place during the break briefly.

BY MR. KING:

Q And also to give you an opportunity to discuss -- you were talking, I think, about Exhibit 4 a moment ago, and I think you referenced earlier that putting

the numbers there under historical performance from 2007 back to 1999, that that would have been misleading; correct?

A Yes.

Q And how does that -- during the break, you characterized that in a particular way. What's your reaction to the fact that it appears that Stanford Group Company used those 2007 back to 1999 numbers under the heading "Historical Performance"?

A Well, I used the word "shocking," but it was used in really that it wasn't prevented by Compliance or apparently no checks and balances to -- I mean, I guess if this was disseminated out to clients or wherever it was, it seems like that should have been picked up on.

Q And why do you characterize that as "shocking"?

A Well, it's a lack of oversight. It is, like I said, historical performance just implies historical performance of the actual clients and not hypothetical.

Q Okay, and in reviewing Exhibit 4, did you note anything else that you would consider significant?

A There was one, and I'm not sure if it was this exhibit. There was a disclosure that said performance was net of management fees. That's actually incorrect, because you have --

It's semantics, but you have advisor fees too. So it's actually gross. It's net of mutual fund management

fees, but gross of advisor fees. Anything that says "net of fees" is misleading as well.

BY MR. KELTNER:

Q Okay. So it's gross of the fees that Stanford charges?

A Charged. But to me, it's a management fee. To a client, that's what a management fee is, is what you're charging me, 2 percent, 1 percent, one-and-a-half.

Q So to be more accurate, in your view, you would back out 150 basis points or 200 basis points as Stanford fees from these return numbers, if you're going to call them net of fees?

A Or put another way, you just say this is gross of all fees.

Q Okay.

A But yeah, that would be hard to do.

Q But if you say it's net of all fees, it should be net of fees?

A Correct.

Q And it's not.

BY MR. KING:

Q Okay, and other than those two issues, your reaction to Stanford's use of the term "historical performance" to refer to the 2007 back to '99 results, and this issue of whether the numbers used were gross or net of

Stanford's fees, we didn't have any other discussions during the break; correct?

A Not pertaining to this, no.

MR. KELTNER: Just real quickly, during the break I ran up and got another document, what I'm going to mark as Exhibit 5. just want to try to wrap up around a few of these issues.

Exhibit 5 appears to be another SAS presentation. It says "Prepared for Chris Rahaim," R-a-h-a-i-m, and "Presented by Charles Rawl." Again, does Exhibit 5 appear to be a SAS growth proposal?

(SEC Exhibit No. 5 was marked for identification.)

THE WITNESS: Yes.

BY MR. KELTNER:

Q Okay. I'll just note I hand-marked the original and then copied it, just for ease of use, and I also omitted any pages after the 14th page. Flipping to the 13th page, the next-to-the-last page?

A Yes.

Q You see there the title "Historical Hypothetical Portfolio Performance"?

A Yes.

Q And then flipping to the next page, you see the chart in the upper right-hand corner that's got 2004 through

2007?

A Yes.

Q Okay, and it says "As of August 2005." I mean, based on the preceding page and the discussions that we've had, does it appear to you that this is the hypothetical model performance that we've been talking about all day today?

A Yes.

Q Okay, and then I want you to grab Exhibit Number 4. Leave that one out. You see Exhibit Number 4? Flip to the page entitled "Historical Performance."

A Okay.

Q What I want to do is put this, this Exhibit Number 4 side by side with Exhibit Number 5. I'll just note that Exhibit Number 4 is SAS Growth, or is -- MF, SAS Growth. Oh, I'm sorry. Exhibit Number 4 represents MFP Growth; correct?

A I'm sorry. I thought four was --

Q Four I have as SAS Growth.

A Okay.

Q So Exhibit 4 is SAS Growth and Exhibit 5 is MFP Growth; correct?

A Yes.

Q Are those the same things, other than the fact that the names were changed?

A You know, I can't -- I don't know how --

We talked about changing the models. I don't know how many models SAS had.

Q Okay. Let's look at it this way. In 2004, what was the annual return for MFP Growth?

A 16.15 percent.

Q Okay, and for SAS Growth?

A Oh, 16.15 percent.

Q Okay, and for 2003?

A 32.84 percent.

Q For both SAS and MFP Growth?

A Yes.

Q Okay, and likewise 2002, the loss of 3.3 for both?

A Yes.

Q And 2001, 4.32 percent positive?

A Correct.

Q And 2000, a gain of 18.04 percent?

A Correct.

Q Okay, for both SAS Growth and MFP Growth?

A Yes.

Q Okay, and when we looked a minute ago at Exhibit Number 5, which is MFP Growth, it was labeled "Hypothetical Historical Performance."

A Right, yes.

Q And as we've talked about ad nauseam, that's

hypothetical performance with the benefit of hindsight?

A Mm-hmm.

Q Yes?

A Yes.

Q Okay, and as we talked about earlier, you see in Exhibit 4 the exact same return numbers portrayed as historical performance; do you see that?

A Yes.

Q Okay, and would you agree with me that that's misleading, implying that this is historical when it's precisely the same numbers that were disclosed as hypothetical and historical, hypothetical/historical performance?

A I'm sorry, misleading how again?

Q Well, it portrays these hypothetical numbers that are in the earlier version as historical; correct?

A Yes, that is misleading.

Q Okay, and they're precisely the same numbers; correct?

A Yes.

BY MR. KING:

Q So Stanford's using the same numbers under two different headings, right?

A As in the MFP Plus Growth and SAS?

Q No. As in hypothetical and historical?

A Yes, yes. I got you.

Q So Stanford is using the same set of numbers under two different headings, one under Hypothetical and one under Historical; correct?

A Correct.

BY MR. ELLIS:

Q Does this give you any -- does it jog your memory or give you any more of an impression of whether these numbers represent the results of your model calculations from 2004, or the fact that these are the numbers they're using today, does that indicate to you whether these are --

A Well, I'll tell you -- I'm sorry.

Q Okay, sorry. Go ahead.

A Well, I'll tell you there was one thing that was very interesting here. The Exhibit 4, with just the historical performance, is through June of 2008. Exhibit 5, am I doing that right, is through August of 2005. So you have a three-year period, yet you have the same calendar year returns.

Q Correct.

A And it's possible that there could be locked-in returns back there, because these further back calendar year returns have remained the same. So in other words, if 2008 rolls around and you change some funds, you should have different calendar year returns.

So the fact that they're similar does in fact lend credence that there might be some of those changes locked in. Does that make sense?

Q Yes. But that's based -- you're just basing that on observation, not from any recollection you have of when?

A Observation of these two reports.

BY MR. KELTNER:

Q And that would be if it was actually -- you wouldn't expect to see a change if these were true historical results, right?

A Correct.

Q So it's only if you're changing the model today and then looking back in time that you would expect to see the change?

A Right. The allocations here, the recommended allocations here are completely different than the allocations here.

Q Could you identify --

A Oh, I'm sorry. The two presentations, Exhibit 4 and Exhibit 5, have completely different recommended funds, you know. I think I've got to scratch that, because I don't think the funds are in here. Yeah, I have to retract that. I can't make the comment.

BY MR. KELTNER:

Q Okay. Now that we've gotten mired in exhibits and

minutiae, I wanted to take a few steps back. One of the things we talked about during our informal interview, a couple of issues that I think fit together.

You brought up the idea of performance issues coming to a head, I think it was a term you used last time we talked, and I think the context for that was around the time that they brought in the outside consultant, and there was talk in late '06 about getting performance numbers. I mean, tell me what that was about.

A I had been hearing in the halls, around the coffee machine, on frequent visits back to the U.S. office from Antigua, that there was disgruntled FAs, financial advisors, about the performance of the program.

Q Okay, and specifically what were the FAs unhappy about? Was it just that the program wasn't doing well, or was there more to it?

A I certainly heard both, that the performance was subpar and that I guess even more so, it wasn't what it was advertised.

Q Okay. So to clarify, the financial advisors were upset, because their clients weren't getting the advertised performance?

A Yes.

Q Okay. So what can you tell me about that, in terms of what you heard?

A Just a general -- you know, your group's gone to hell in a handbasket, what's going on? You know, just advisors complaining about performance.

Q To try to nail this down a little bit, you mentioned at the beginning of our conversation that Mr. Grosebeck was a friend of yours?

A Yes.

Q Okay. Was Mr. Grosebeck one of the people you talked to about this issue?

A Yes.

Q Okay, and what did Mr. Grosebeck talk to you about?

A He's not one to complain. I mean, he just, I think -- you know, voiced concerns about it, about the returns. I don't know specifics of the conversation.

Q Okay. So you heard this hallway talk from Mr. Grosebeck and who else?

A Charlie Rawl, Charles Rawl, Mark Tidwell. I mean, probably other advisors that I don't recollect names.

Q Okay. So they had talked to you about this performance reporting issue while they were still at the company, still at Stanford?

A Yes, yes.

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

A I did not. I just kind of --

Q Kind of what?

A I just didn't -- I didn't get involved. I was a sounding board.

Q Okay. Sounding board for the FAs?

A Yes.

Q Okay. Anything else you can remember about those conversations?

A No. No, I don't.

Q Did it give you an idea of the magnitude of the problem or what years they were talking about?

A Well, this would have been in the 2006 kind of time frame, but not as far as magnitude, if that's what -- you know.

Q So it was the 2006 performance reporting that they were concerned about?

A 2006 that this was happening. I suppose the returns of question would have been probably the last year or two. Bless you.

Q So anything else you can tell me about these conversations?

A Not really.

Q Okay. But just to summarize it and make sure I understand, again the issue was the financial advisors were concerned or upset that their actual clients were not

receiving the performance that was presented to clients in advertising?

A Correct, and just generally upset about performance. I should probably add that meaning relative performance.

Q Relative to the market?

A Yeah. SAS is down. What's going on over there?

Q Okay. Along those same lines, I understand that recently you've been contacted by Stanford regarding performance reporting issues; is that correct?

A Well, they as you know, had an examination, SEC examination I guess this month for a couple of weeks, and I got two calls from Operations personnel.

Q Okay, and who were the Operations personnel?

A The first call was from Laura Comeaux, C-o-m-e-a-u-x.

Q How is she related to Mr. Comeaux?

A To Jay Comeaux? She is his daughter-in-law, his son's wife.

Q So was that the first call?

A Yes.

Q Okay, and what did she call you about?

A She called --

MR. CRAINE: And then just so I'm clear, there was nobody from Legal present or involved?

THE WITNESS: Not that I know of. It was just her.

MR. CRAINE: Yes great. Go ahead.

THE WITNESS: She was asking about what was the name of that performance vendor we used to use.

I'm like, "Oh, that's Greenhill." Pretty short call.

She's like, "Oh, the SEC's here -- you know. They're trying to get, I guess get some old archived performance."

I said, "Well, there should be records. That stuff should be kept ten years," putting on your hat, or is it seven? Or call Greenhill, you know. I said they're in D.C. They probably have archive files, and then that was it.

BY MR. KELTNER:

Q Okay. What did you -- did you say anything else to her? Were you surprised that they were calling to get historical data? Were you surprised they would have to call an ex-employee to get the historical data?

A Very surprised. I mean, I was very cordial and very friendly. I want to help them, but I was just like why are you calling me?

Q Okay, and why were you surprised?

A Well, I had left that department four years ago.

Q And were you surprised that an advisory firm that presents their track record to clients wouldn't have at their

fingertips the documentation to support the track record that they claim?

A Yes.

Q Is that because working in the business, you understand that you have to have evidence for a track record if you're going to use it for your clients?

A Yes, and performance reports. You have to have records of anything sent to clients in the performance reports.

Q Okay. Anything else you said to Laura on that call?

A No.

Q Okay. So what leads to the second call?

A It was Laura and this time she brought in Julie Mayse, who was another one of my hires.

Q What was that last name?

A Mayse is M-a-y-s-e.

Q Okay.

A And Marie Gardner, and there might have been a fourth person, not Legal.

MR. CRAINE: Thank you.

THE WITNESS: And they were asking to get more archived information on some of these old model allocations. Where would they be kept? I said I don't know. I suggested call IT, maybe go through my old network or something. Go to

an old backup drive.

BY MR. KELTNER:

Q Okay. Specifically, what were they asking you for?

A Old funds and allocations. When I say "old," I think pre --

Q Pre-'05?

A Yeah, '05, '04, '03 and beyond.

Q Okay, and what were you able to tell them about where to find that stuff?

A I had no idea as far as files. I suggested to go to IT.

Q So they were trying to find client data, or were they trying to find the old allocation data, like where the model was invested or what the model was?

A I think more the latter, more what was invested, you know. It was a strange call. I mean, it wasn't where's this, but it was like old allocations.

Q Yeah. What was the --

A Not proposals but like the models, like your old 9 models. Where are those allocations?

Q Okay. What was the tenor of the call or what was it like to you?

A I'm sorry. Could you elaborate?

Q Sure. I mean, were they -- I mean --

A You mean like stressed, or --

Q Stressed or were they embarrassed at all to be asking for this stuff, anything like that?

A I don't think so.

Q Who was leading the call?

A Laura.

Q And again, what's Laura's role?

A She's in Operations with SCM, but I don't know her title, her official title. And they did say that Rhonda Lear, I think is the Compliance officer, would be calling me, and she never did. Or might be calling me with questions, but she never did.

Q Okay. Did they give you any indication as to what they had found so far? No?

A Oh, I'm sorry, no.

Q Just real briefly, I don't even think I need to mark this as an exhibit necessarily, but there's an e-mail that we found dated June 21, '05, and it's just sent by you to the SGC Houston branch e-mail. That's all the FAs in Houston?

A Yeah. Branch FAs, assistants.

MR. KELTNER: It says "Please Jason D'Amato and myself in the Lodis Room, Monday, June 27th at 3:00 p.m. for a State of the Union address on the MFP program."

It says "We'll be discussing methodology and process, lookback at strategic changes, why changes were

made, performance results from the changes, performance of the program and current commentaries and expectations." We can go ahead and mark it as Exhibit 6.

It's an e-mail dated June 21 from Michael Zarich to SGC Houston Branch, copying Jason D'Amato, Priscilla Olivia, it looks like.

(SEC Exhibit No. 6 was marked for identification.)

THE WITNESS: My assistant.

BY MR. KELTNER:

Q So ballpark this time frame, is this close in time to when you were given the offer to go to Antigua?

A Yes, I think -- I'm sorry. It was probably a couple of months prior. I think August.

Q Okay. So what was the purpose of this State of the Union address?

A Well, it was common to have sales meetings with the brokers. I mean, that's part of what I would do, not just in this branch but in other branches. I'm curious at Point 2 is kind of what we've been beating around all day, lookback at the strategic changes in the program.

Q When you say "strategic" --

A Meaning when we talked about trying to make those models as realistic as possible, I don't know.

Q Okay. So you think this --

A I mean, it's -- I'm sorry.

Q So you think -- does this give you any idea that maybe the process of doing that project took place in '05, close to your leaving for Antigua?

A I'd like to think that. I will say certainly it's a sales meeting. I'm sure the pretense is to sell MFP, again to keep promoting it. But that's what number two is. If I had to guess, that was probably on the heels of that analysis project, whatever you want to call it.

Q And who would have run a meeting like that? Would that be you or D'Amato or --

A I would have. I would have run, most likely. I might have had -- he might have spoke took, but I would have run it.

Q Was there anything significant about this State of the Union address?

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

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

MR. KELTNER: Let's go ahead and go off the record.

(A brief recess was taken.)

MR. KELTNER: We're going back on the record briefly after a short break. During the break, we agreed to adjourn to another date next week that we'll work out, that's mutually agreeable. We'll go ahead and go off the record at this point and we'll reconvene next week.

(Whereupon, at 3:37 p.m., the examination was adjourned.)

* * * * *

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. FW-2973
STANFORD GROUP COMPANY)

WITNESS: Michael Zarich
PAGES: 119 through 296
PLACE: U. S. Securities and Exchange Commission
Fort Worth Division of Enforcement
801 Cherry Street, 19th Floor
Fort Worth, Texas 76102
DATE: Wednesday, February 4, 2009

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

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

APPEARANCES:
On behalf of the Securities and Exchange Commission:
KEVIN EDMUNDSON, ESQ.
MICHAEL KING, ESQ.
D. THOMAS KELTNER, ESQ.
DAVID REECE, ESQ.
CRAIG ELLIS, Accountant
Division of Enforcement
United States Securities
and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, Texas 76102

On behalf of the witness:
PATRICK K. CRAINE, ESQ.
Bracewell & Giuliani
1445 Ross Avenue, Suite 3800
Dallas, Texas 75202

C O N T E N T S

WITNESS:	EXAMINATION
Michael Zarich	122

EXHIBITS:	DESCRIPTION	IDENTIFIED
7	Memphis meeting SIBL questions, 10/24/05	138
8	SIB investment portfolio performance presentation	176
9	Treasury meeting 12/9/05	191
10	Client SIBL questions	196
11	Questions from Role play	215
12	Client presentation of Stanford SIO	228
13	Antigua client prospects' presentation	231
14	Continuation of Role Play Q and A	244
15	Stanford Int'l Bank, Ltd. letter visits	252
16	Stanford Int'l Weekly Statement, 3/15/04	262
17	FSRC quarterly report	273
18	Outline of FSRC On-site Examination	279
19	Letter to J. Rodriguez re examination	280
20	SIB Annual Report, although it's from 2006	282
21	Resume of M. Zarich	290
22	Bio of M. Zarich	291

P R O C E E D I N G S

MR. KELTNER: We'll go ahead and go on the record at 10:00 a.m. This is a continuation of Mr. Zarich's testimony.

I'm just reminding Mr. Zarich, you remain under oath, so same rules, same procedures that we talked about last time will apply today.

THE WITNESS: Okay.

Whereupon,

MICHAEL ZARICH

was recalled as a witness and, having been previously duly sworn, was examined and testified further as follows:

EXAMINATION

BY MR. KELTNER:

Q The last time when we left off we had spent a lot of time talking about SAS and NFP, and you really just started to touch issues related to the CD program, and your move to Antigua.

A Yes.

Q And we talked a little bit about that obviously, before, in an informal interview. But I want to go ahead briefly today and talk about, just from the beginning, how you were approached to make the move down to Antigua, who approached you. Just kind of start there.

A I was approached, I want to say, in probably August of 2005 by Jim Davis, who is the CFO of Stanford Financial Group. He offered me the position of senior investment officer, which would be an investment officer on-site at the Bank of Antigua. I accepted the position and then we commenced it to a three-, four-month training period with Laura Pendergest for a start date of January 1st, 2006.

Q Okay. Initially, how did Mr. Davis explain the position to you?

A It was a strategic vision of him and Al Stanford to have an investment person on-site at the bank that could speak more intelligently to how the assets were managed at the bank for respective clients and financial advisors, or existing clients that visit the bank to start their due diligence process.

Q Okay. So to play a role in the sales process?

A Yes.

Q Okay, and specifically the sales of certificates of deposit?

A Yes.

Q More generally though what were you told your responsibilities would be in terms of being an investment officer?

A To work with the investment committee of Stanford National Bank, which would be Jim Davis, Allen Stanford, and specifically the chief investment officer of the Stanford Financial Group, Laura Pendergest, and a team of analysts in Memphis, in helping oversee and monitor the portfolio but specifically to speak of that somewhat, I guess, as a liaison between this investment committee and the analysts to talk about a portfolio to these client prospects.

Q Okay, so you help explain how the assets are invested to prospective clients?

A Yes.

Q Okay. But what was your actual oversight role to be? I mean what were you told in terms of were you going to be overseeing the portfolio. Were you going to be actively involved receiving reports daily, weekly?

A Initially, none. I was under the impression I would be more involved with the investment side. I think as

Zarich_Michael_20090204.txt

I mentioned on the call it did turn out to be more of a marketing position, but just monitoring the portfolio, never investing. I was never under the impression I would be involved at that level of the portfolio to move money, invest money, but just be privy of how some of the money is managed.

Q Okay. You said initially you were under the impression. Did you get that impression for Mr. Davis?

A Yes.

Q Okay. And so after you spoke with Mr. Davis, you had the impression that you would be overseeing the investment portfolio on some level, even if you weren't actively involved in the day-to-day trades?

A That's correct.

Q And did you get a similar message from Ms. Pendergest?

A Yes.

Q So once the training commences, is your role explained to you any differently, or are you continuing to have that same impression?

A The difference is and I should backtrack a little. I was under the impression that I would under time get to see more and more of the portfolio to be able to explain it better to clients. So going into the training it became clear that I would be overseeing parts of the portfolio but enough of the portfolio to hopefully speak intelligently to potential investors on how the assets of the bank were managed.

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

Zarich_Michael_20090204.txt

A The portfolio was divided into essentially three tiers: tier one, tier two, tier three. Tier one is cash; tier two is an investable portfolio of stocks, bonds, alternative investments, commodities. Some cash as well that is under Laura Pendergest, the chief investment officer and her team of analysts that I would be more from an oversight and monitoring privy to that side of the portfolio. And tier III was under the discretion of Jim Davis and Allen Stanford. And at the time, I have an impression, over time I would be privy to more of the portfolio, meaning tier III.

Q We talked a little before we went on the record, giving you a preview of some of the things we might look at. That included some of these Q and A documents that we worked through in Memphis. There's a lot of discussion in those documents or at least mention of the different tiers. What were you told during the training sessions about what was in tier III?

A That it was similar to tier II, that it was an investment portfolio of stocks, bonds and equities, utilizing some of the same private banks or institutional money managers out of Europe, primarily, but it was proprietary then.

Q And who told you that?

A Laura.

Q Laura Pendergest?

A Yes.

Q Laura Holt? I'm sorry. Which do you call her?

A Pendergest. I take it she's married -- Holt --

Zarich_Michael_20090204.txt

okay, I believe so.

Q Again, we'll drill on this a little bit more later, but one thing with is the proprietary nature of tier III, because looking through the Q and A documents, it looks like when clients inquired about tier II, they were told. Well, what were they told when they inquired about tier II? If they called up and said I want to see what's in tier II.

A I don't remember talking about the tiers to clients. I think that was part of training.

MR. KELTNER: Sure. Sorry, I'll try not to clip your answers.

BY MR. KING:

Q You said part of your training was not to talk about the tiers?

A Correct. To a prospect of tier I, tier II, tier III, that was more of an internal accounting process?

Q Who trained you to do that?

A Laura Pendergest.

BY MR. KELTNER:

Q Let me ask you more generally. When a client called or a prospective client was on the island, and they said, I'd like to see the investment portfolio, presumably you were talking to a big fish, $5 million plus investors?

A Yes.

Q I assumed, at least, a few of them asked what money was invested?

A All of them.

Q Okay. And when they asked that, what did you tell them, that is, what were you coached to tell them by

Pendergest?
A That the portfolio was allocated amongst 25 or so private banks, institutional money managers located primarily in Europe. Each manager or bank has a long-standing relationship with the bank, manages a sleeve of the overall assets, and each one has their own diversification about the invested objectives, so it's kind of a further institutional diversification among these 25 entities.
Q Did any of the prospective clients want to drill down further and say that's great, but I want to see what they've invested in?
A Yes.
Q Okay. And then what did you tell them?
A You know, we'd give him asset allocation, try to drill down from a macro level, mention some name of these banks, but if it did happen, they'd just push, push, push. Give me an actual security. Give me something. It was proprietary nature would be my answer. It's the desire of the board of directors not to give that information; and, it's also part of the regulation of the bank, being chartered as a bank. In Antigua we cannot sell investments or sell CDs.
Q Okay, so again I'm trying to wrap my head around, and you haven't been there. I'm hoping you can help me with this. You said tier III was proprietary and that's why you

never saw it. Correct?
A Yes.
Q Okay. What's the difference between tier II and tier III when investors aren't allowed to see tier II either?
A They don't see the difference.
Q Well, I mean, how is tier III proprietary and tier II different?
A Proprietary might not be the right word. I think proprietary, from me, so that being the big difference is the size of tier III and assets is the assets of the bank.
Q So, let's talk about that a little bit. So tier I is cash. When you are there can you ball park that for me? Is it a hundred million, two hundred million?
A Three, four hundred million, hundred five, hundred million. It definitely fluctuates.
Q And, you know, we'll look at the investment portfolio summaries. But, tier II, you know, can you ball park that for me?
A I think it was a couple hundred million.
Q Okay, and so you're there, you left in what, '07?
A Yes, summer of '07.
Q Okay, so the bank's overall portfolio is up to what, about six billion?
A Five to six billion, yes. Yeah, five and six billion.

Q Okay, so you, the senior investment officer get access to what, 750 million have high-end?
A In terms of privilege from a day-to-day, yes.
Q And you never saw tier III?

A Never.
Q Okay. So, you know, 4-1/2 billion, 4 billion, whatever the number is, you never saw, never had access to?
A Correct.
Q Since we're going down that path, before we directly into the Q and A documents, I think you told me you talked to a few of the analysts in Memphis.
A I did a part of my training, and as we mentioned last week, I was up there a lot anyway with my role with the investment advisor group, but I didn't spend time at all.
Q Okay. And did you also see a few of them at Antigua from time to time?
A That's correct. The analysts rotated on two-week rotations, two at a time, continuously, while I was in Antigua.
Q Okay, when you spoke with them, I would think just as an investment professional and out of curiosity, you know, given the bank's impressive track record -- you know, hitting their 15 percent roughly for 20 consecutive years -- did you ever ask this? How do we do it? What's in tier III? Did you ever ask that question?

A Not tier III, but about I should say each of the analysts were charged with overseeing a particular bank or financial institution out of these 25, give or take. So I would talk specifically about their particular manager that their monitoring.
Q I think earlier you said that you expected that eventually you'd see more of the assets, but you never saw

tier III. Right?
A I did not.
Q Okay. As you're down there and you've been working for a year or so, did you ever go back to Jim Davis or Laura Pendergest and ask questions about tier III?
A Not to Jim Davis. And I don't recollect specifically to Laura asking about tier III. It's to see more of the long portfolio.
Q So I guess you're kind of the primary investment contact when CD investors come down to Antigua. Correct?
A Yes.
Q So were they supposed to come down and they want to ask you about the investment portfolio, the answers you provide are based fairly on tier I and tier II?
A Yes. And, not necessarily; I mean the allocations for the whole portfolio were done quarterly.
Q When you say allocations, are you talking about these percentage breakdowns by asset class?

A Right, asset class.
Q And what about, I guess I've seen pie charts. Is that the kind of thing you shared with clients?
A Yes, there's quarterly publications.
Q Okay, like in the quarterly reports and then in the annual reports?
A Correct.
Q Where did you get those allocation numbers?
A They were down by the Memphis analysts.
Q Who sent them to you?
A Well, the quarterly report is kind of a glossy,

internal document, I think came from Angie Skelton.

Q One of the analysts?

A Yes.

BY MR. KING:

Q What does the pie chart represent?

A There were a few. I know one was the allocation from the equity fixed-income cash. I think there was one on currencies, how the portfolio was allocated amongst currencies and then maybe alternative investments, how they were allocated among hedge funds and alternatives.

Q What information would you need to put together the pie chart?

A You would need all the portfolio holdings.

Q Including tier III?

A Yes.

Q How did you get the pie chart from Angie Skelton?

A E-mail.

BY MR. KELTNER:

Q Were there any assets in tier III just by class that were different than tier II? I think you said it was very similar, same advisors, stocks, bonds. Did you say that?

A I think it was several of them but I don't know. I mean I would infer it as well looking at the quarterly reports based on the overall allocation if we were stating 50 percent in equity that there was 60 percent in equity, but what that equity composed of, I didn't know.

Q Okay. What did you tell investors about the

alternative assets? Because I want to know what that term means to you.

A Alternatives is an asset class that's not a fixed-income, not a security. It's typically less correlated to those other asset classes, cash, fixed-income, real estate, because it uses typically some hedging, long, short, arbitrage, various styles within alternative investments to lessen the overall volatility of the portfolios was why it would be used, why you would use them.

Q Okay, so I kind of understand what it's not. I still don't understand fully what it is. Is it a derivative portfolio?

A It could be derivatives, stocks that short the market.

Q CAGs?

A You might consider commodity futures trading as an alternative.

Q So I take it you didn't know what was in the alternative bucket?

A I saw the managers I did visit with when I was in Europe, some of the underlying managers, but generally more from an asset allocation standpoint, broad asset allocation standpoint.

Q Okay. What about exposure to real estate? I think I saw in the Q and A something about we don't have any real estate exposure. Was that your impression?

A There was no hard real estate that I knew of, but real estate access through refunds, like a real estate investment trust fund that tends to be more liquid trade than

any daily.

Q So where would that REIT asset show up in the pie chart?

A Alternative.

Q So if the pie chart's telling me that alternative is a 10 percent piece or an 8 percent piece, there shouldn't be a big 40 percent real estate piece out there. I mean that's your impression?

A Yes.

Q Okay. And where did you get that impression?

A Well, just on I guess the weightings of the portfolio.

Q Just for the pie chart?

A Yes.

Q That came out of Memphis?

A Yes.

Q So let's talk a little bit about these training sessions. So we've seen some of the Q and As and we'll look at them here in a minute. Explain to me generally initially what do they tell you you were going to be in and then kind of how the process worked in terms of training.

A I would be a point person on island, at the bank, to visit with prospective clients, financial advisors and existing clients that come down there. I would work with the president of the bank, Juan Rodriguez, to help present the bank kind of as the sequence of events. He would start it off talking about the history of the island and how the bank came to be, the history of Stanford Financial, how the bank

came to be in compliance operations, and I would step in and talk about how the deposits, how the assets of the bank are managed.

Q So the high level of presentation on how the CD proceeds were invested, basically?

A Yes.

Q So allocation type information, but no specifics?

A Correct.

Q Were there any hot button issues? Well, for example, there's going to be a lot of prospective questions from clients in there. Whether things they told you, this is what you need to worry about. This is what you need to focus on or anything like that.

A Not to worry, clearly to focus on the questions for my piece really came down to just the same questions and just a thousand different iterations. How do you do it. How is it done. How safe is my money. What are you doing here. Just to say over and over.

Q So in short how do you achieve these impressive returns year over year?

A Cal State is my money. You know, where is the money.

Q And, again, we'll drill down a little bit in a minute, but generally what were people told when they asked how do I know my money's safe?

A That it was safer than a traditional bank in that there were no loan portfolios. If there was no loan portfolio, there's no loan reserves. Being an offer or entity that's not regulated by U.S. banking laws, we have the

flexibility to have this investment portfolio, any markets, any security, long, sort, cash, flexible, liquid, so a lot of it I think trying to release a lot of my presentation talked about how the models were different than what a particular client might be used to in a banking model.
Q And then a distinction between a commercial bank and a typical commercial bank and Stanford is essentially how the money is invested?
A Correct. You know, a traditional bank, a commercial bank takes deposits in. It lends them out and creates a narrower spread, has to keep loan reserves, which of course erodes more of the capital revenue; whereas, Stanford International Bank, that model, it invested therefore potentially creating a larger spread in the global markets.
Q Okay. Well, let's go ahead and let's go quickly. Who was leading your training sessions?
A Laura Pendergest and, I apologize, I don't remember her last name, but there was an external consultant that kind of facilitated it. It was Tammy, Tamara. It was really the three of us for a couple of months, not every day.
BY MR. KING:
Q Before you go too far down the road, I want to go back to one thing you said just a minute ago. You said that in your overall focus it was how you do it, the safety of the

money and where is the money. And I think you just told us about what you would say when someone would ask about the safety of the money.
A Right.
Q What do you say if someone asked you about where is the money?
A I would mention again the 25 private banks and institutions, and they would use either their own custodians or other custodians just like any other investor, whether it's UBS or Bear Stearns, or Schwab or HSBC. So the assets were kind of held at these multiple facilities around the world.
Q And how did you know that that's where the money was?
A I would only have known on parts of tier II by seeing the statements.
Q Okay, as far as the other $4 million, how did you know where that money was?
A $4 billion?
Q $4 billion.
A I did not.
MR. KELTNER: Okay. So I'm going to hand you a document that I'm marking as Exhibit 7.
(SEC Exhibit No. 7 was marked for identification.)
MR. KELTNER: It's entitled SIBL questions from October 24, 2005, or 10/24/05 Memphis meetings. I know you had a brief opportunity to flip through these documents before we started testimony; and, if at any point you want to

take time and review the document, just let me know. At a high level, what is Exhibit 7?
THE WITNESS: This looks to be questions I put together based on some of my observations. Let me backtrack. I think the early part of the training I spent one on ones with each of these analysts and came back to Laura with some of my initial questions.
BY MR. KELTNER:
Q So this looks like maybe questions that you had compiled after you had training sessions.
A Early on.
Q Okay, and then there are obviously answers in here. Are these answers that you came up with on your own or were they based on what you were told by Laura?
A These answers were from Laura that I believe I wrote them in. In other words I don't think she wrote these in. I believe I asked the questions and probably typed them in and wrote them in.
Q Okay. So do you think you had collected a bunch of questions and then perhaps had a meeting on October 24th with Laura where you asked her the questions?
A Correct.
Q And then are you sitting there with a laptop typing in answers as you go or are you taking notes?
A I would guess I was with a laptop taking notes.
Q So you're taking these answers down live as Laura's giving them to you?
A Most likely, but don't recollect for certain.

Q Okay. But generally?
MR. REECE: Was that the standard practice?
THE WITNESS: I did it a lot, but I wouldn't say standard practice.
BY MR. KELTNER:
Q Is that how you remember the meetings going when these training sessions when you were doing the Q and As that you would sit there live and take information down?
A Yes, I mean I'm a big note taker and it would have been a combination of probably handwritten and typed in.
Q But are you fairly confident that the questions are questions that you put together and the answers came from Laura?
A Yes.
Q So for lack of a better way to get through this, I'm just going to go through it in order and hit a few questions for you. Item 1 says what oversight you have on Wade and David's commodity trade portfolio and Mark's equity strategy. Let's start with who are those people? Who are Wade, David and Mark?
A Wade McGee, David Fontenot and Mark Collingsworth are all three analysts with the Memphis group. David Fontenot has left the firm and they were managing essentially a commodity portfolio in-house, trading future contracts on commodities.
Q Okay. And Mark, what was his role? Is it Collingsworth? Is that right?
A Yes, Collingsworth, he had an equity strategy, a long only equity strategy. Wade and David have a commodity

trading portfolio. There is a distinction there.

Q And are these in-house portfolios, or are these advisors that are overseeing?

A My impression Mark's was kind of a prototype portfolio, but it wasn't live with actual money. And then Wade and David I believe were managing assets.

Q So I think I saw some later questions, and I'm paraphrasing here, but essentially are the advisors in Memphis going to be allowed to handle real money down the road. So at this point, the advisors are just using -- not to be pejorative -- but play money? I mean, they're using a synthetic portfolio?

A I believe Mark Collingsworth's was, but I believe Wade and David's was not.

Q The commodity portfolio?

A Right.

Q So you think at some point in this '05 timeframe they're running a commodity portfolio?

A Right.

Q Continuing in item number 1, it says they have an investment policy in place, weekly holdings reports. They have discretion. However, SIO has overriding abilities. Occasionally, they run by trades before executing. So the SIO, that's you?

A I would read that as the CIO, but I never have any discretion.

Q Because what we're trying to get -- I mean, when we get to this, you'll see a recurring theme, but it says the

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

A Hm-hmm. Is there a question?

Q That's essentially the question. Were you told that this would be a role, or were you told that this is what you should tell them?

A It seems looking at this that I was told this would be my role.

Q Okay, so senior investment officer is likely you?

A Yes.

Q Okay. And whether what you actually did later is different is another issue. But I'm just trying to get, you know, when you're taking these notes and the training is going on you were told that this would be your role?

A Yes.

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

A Based on this question, yes.

Q And you take that to mean that you would have had some sort of veto role with regard to trades or positions?

A Yes. Reading this, that's what I would take.

Q Skipping down just a little bit to item 5, there's a question entitled, "What kind of internal auditing procedures are in place?" I guess, let's just get through this and let's talk about how this is consistent with what

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

So what kind of internal auditing procedures, and A is checks and balances. And it talks about Patricia, Mr. Davis, and SIO, to determine cash available, and then Mr. Davis approves the wire. Just stopping there first, who is Patricia?

A Patricia Maldonado is the manager, for lack of a better word, over tier I cash. She's essentially the cash manager of tier I.

Q Okay, and is she in Houston?

A She is in Houston.

Q Does she work for Stanford Group or who does she work for?

A She works for Stanford Financial.

Q Stanford Financial Group?

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

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

A Treasury would oversee the cash at the bank, all the money coming in, all the money going out, making sure that the assets and liabilities were mixed right. There's no shortage of cash. Maybe with a bunch of deposits, CDs coming due in a month or two, they would kind of keep that balance of cash at a bountiful level just to maintain liquidity.

Q So this cash that comes in, is that largely CD investments?

A Yes.

Q Okay. And then they would be the ones that would then wrap the money. Where does the money go once the CD money comes in?

A It would be wired, I think at the time there was three banks. So the client money would go into, I know, HSBC was one of them. Toronto Dominion was another, and I think there was a third in the states, but I don't recollect. And that's where she would manage at all those banks, manage the cash.

Q Okay. There's a statement in here about the SIO determines cash available in conjunction with Davis and Patricia? Did you have any role in overseeing the cash in tier I?

A No.

Q It goes on to say: "Patricia monitors liquidity needs and all the work together to monitor cash in tier one. Always be aware of tier II, cash 2." So what's the distance between tier I cash and tier II cash?

A In tier II you're going to inevitably have cash if you liquidated investments or you're moving cash in there and you're waiting to invest the assets. You might have some cash to accumulate, so I think you would want to make sure you don't have too many cashes. Patricia with tier I doesn't necessarily know tier II or 3. So I think what this tells me is just make sure we don't have too much cash, that we're fully invested.

Q Okay. In the following sentence there's a reference to drawing down 50 million monthly. Do you know

what that's about?
A I don't. I'd speculate it's expenses at the bank, maybe.
Q Sure. Let's just skip to item C.
A I'm sorry. It might be to pay depositors. That's what it could be, interest.
Q Just when CDs become due?
A Yeah, become due.
Q Or early redemption?
A Yes.
Q In item C, and again we're under the heading "Internal Audit Procedures," there's a reference to "monthly statements sent to me in Antigua, weekly statements faxed to me from SFG Memphis." "Me" is you?
A Yes.
Q Okay. So was that the practice? Did you get monthly statements and weekly statements from Memphis?
A I received some monthly statements from the custodian firms from the banks that managed the assets, and I received a weekly e-mail statement on I believe just tier II investments.
Q Okay. So we had a couple of examples that will show you the monthly roll-up with the pie charts and had aggregated to 150 million and then had sub tabs for all the advisors and spreadsheet. Is that what you're talking about?

A That would be referencing the tier II weekly e-mail.
Q Okay. And we only found two of them, I think, in the production you had. Did you actually get those on a weekly basis or just from time to time?
A Weekly.
Q And then what about the monthly statements? You said you got some of them. I mean, I think when we talked with you before you made some reference to, you know, statements being misfiled or stuck in the wrong in-box and finding their way to you down in Antigua. Was there a systematic protocol for you to get every statement from every supervisor in tier II?
A There was not a system in place. I'm not sure what I said before. Some came to my desk and I found a way, but clearly not all of them.
Q I mean ball park it for me. Were you getting a significant piece of portfolio or just a few random statements here and there?
A A very minute part of the portfolio.
Q Okay, and for the minute part of tier II?
A Yes, yes.
Q And you never got any statements on tier III?
A I don't believe so.
Q In item D there's a reference to Edmundo audits David, Wade and Mark's trades annually. Who's Edmundo?
A I do not know.
Q Does the name mean anything to you?
A I would guess an internal auditor if I had to

guess.
Q We'll talk a little bit as we hit some of these items on internal audit. Who did you interact with from internal audit, if anybody?
A No one.
Q Because there are references throughout these documents to internal audit coming down to Antigua. Did you ever see the internal audit in Antigua?
A Yes, yes.
Q When and who?
A Well, I can't remember names. Pretty frequently I would say a minimum of quarterly, but I don't remember any names.
Q Were these people based out of Antigua, or do they come from Memphis?
A Houston.
Q From Houston. Okay, who were they employed by?
A Stanford Financial came as far as the direct report, and I'm not sure.
Q Okay. I take it they never interviewed you?
A No.
Q They never asked you for any records?
A No.
Q So pretty much no interaction with you?
A Other than socially, no interaction as far as the assets or portfolio.
Q Okay. Who did you interact with?
A It think probably would be someone in compliance

and operations. A typical audit visit is they're hold up in a conference room, doors closed.
Q But they never spoke to you, the senior investment officer?
A Correct, they did not.
Q There's a reference in 'F' to FSRC doing spot checks. What's that reference?
A It would read in addition to their quarterly visits, but I do not see any spot checks. I'm sorry, annual visits, not "quarterly."
Q So the FSRC, that's the Antiguan bank regulator?
A Oh, yes, Financial Services Regulatory Commission.
Q And you'd see them on annual visits?
A Yes.
Q But never just spur of the moment spot checks, any thing like that?
A Correct.
Q We'll get into more detail on that a little bit. In item 5G it says "Checking balance between Fred and each analyst as well as Zack run in parallel figures." First, who are Fred and Zack?
A Fred Pomleedin and Zack Davis.
Q Zack, who is his father?
A Jim Davis.
Q Explain that to me. What does that mean, "Checking balance between Fred?
A You referenced the spreadsheet with all the tabs. He would put it together. He would get an individual tab or individual port from the various analysts and put it into the

macro report and e-mail it to me. He e-mailed the weekly report.

Q How do you know Fred did that? Did you talk to him about it?

A I got the e-mail and we did speak.

Q So you know that Fred was the one that prepared those spreadsheets?

A Yes.

Q And what's the reference to Zack running parallel figures?

A I believe he is running also your same kind of year-term roll-up, probably for a checking balance. But I did not receive. Maybe it was a backup or something, but I did not receive e-mails that I know of from Zack Davis.

Q So the idea may not be in the basically Fred and Zack are preparing the same data, and just set them side by side and made sure that they could?

A That's how I would view it.

BY MR. KING:

Q Item 5G on Exhibit 7 would be a checking balance from tier II?

A What I received from them was only tier II.

Q So you don't know whether this item 5G, whether that checking balance was ever applied to tier III?

A Correct. I don't know.

BY MR. KELTNER:

Q So does item 5 represent what you were told to tell investors by Laura?

A Yes and no. I think this would not be a polished answer to a potential investor. As we talked of it, again, I think this is kind of for my own edification entering into this process.

Q Okay. We talked earlier about, you know, investors asking where the money is and how the returns are gained, and pretty much every single one asking you where the money is invested. Presumably, some of them also asked about controls and safeguards. So what were the told if they asked a question like this?

A I would talk about how many analysts are looking over the portfolio. You have 20 plus analysts in Memphis. Each analyst is in a sense segregated with their own piece of the portfolio that they monitor. It's monitored daily. You have checks and balances. You have, you know, globally diversified array of money managers, different custodians. The money is virtually very spread out. So that was another typical question. Could Allen Stanford run off with the money.

A Yeah, I think we saw that one. It was somewhat entertaining.

Q Oh, was it? So, I mean a typical question was could Allen Stanford run off with my money?

A Right, and the answer would be it would be extremely difficult. There's no money at the bank. In fact that was one of the jokes of the tour, when whoever did the tour, took the clients on the tour of the bank, there actually is a safe, but it's a safe that had petty cash in it. The money's invested across the globe, so he'd have to

go from bank to bank to bank, you know, custodian. And with a very large suitcase to actually take the money.

Q Okay. If you can see I'm struggling with all the safeguards and procedures that he referenced, they would all apply to tier II, right?

A Yes.

Q Okay, and as far as you know, you know nothing about the safeguards surrounding tier III, right?

A Right.

Q Okay. I guess here's what I'm struggling with. An investor, when they ask you the question, they're not asking what safeguards are there for 20 percent of my money, are they?

A Right.

Q Okay. So as I understand it, when they ask that question, it's a little misleading. I mean are investors going to assume that those safeguards apply to all money?

A It was my belief that the money in tier III, although may not have had these eyes on it, was still invested with some of these same banks located around the world. So to answer your question, it was just belief and trust.

MR. KING: Did you ever tell a potential investor that the analysts didn't know what money was in tier III?

THE WITNESS: No.

BY MR. KELTNER:

Q Yeah, so I guess that's kind of the overriding question is investors may ask you the general question what

safeguards are there, and your response is in part there's this team of global analysts. Each one of them manages an investment advisor. That's part of the answer.

A That's the monetary part of the answer. The reality is where the money is it's diversified and held.

Q Sure. But the reality is what 75, 80 percent of the money the analysts never see, right?

A As far as I knew they did not.

Q Okay. And so was that communicated to your investors? Were investors told we've got all these safeguards in place. We've got all these analysts that look at the money, but they only look at 10 percent of it or 20 percent of it?

A I did not. I would not tell an investor that.

BY MR. KING:

Q Why not?

A You know, that was partly because it was proprietary. I was trained not to divulge too much information, but it just wouldn't leave an investor with a lot of confidence.

Q Who have you a trained to do that?

A Laura Pendergest.

BY MR. KELTNER:

Q Tell us about it a little bit. Item 6, has there ever been an outside audit on the following page in item 6, CAS Hewlitt & Company. We talked to you a little bit in our interview about CAS Hewlitt. Have you ever met anyone from the firm?

A I have not.

Q Okay. You were down in Antigua for what, a year and a half, two years, year and a half?
A Yes, year and a half.
Q Okay. Did you ever see anyone from CAS Hewlitt?
A I did not.
Q Were you ever given a copy of the audit?
A I don't believe so.
Q Sitting here today and aside from the audit letter and the financial statements, can you say one way or the other whether or not it was conducted while you were there?
A I couldn't say.
Q What were you told about CAS Hewlitt?
A I recollect he or they had a longstanding relationship with Allen Stanford, or maybe even his father. They were one of the few auditors that we'd kind of take them on early on in the bank. And there was, you know, just a trusted relationship there. And the question would often come up. Why not a big name auditor?
A Right.
Q And what's the answer to that question?
A I've heard answers they wouldn't even give Stanford the time of day 20, 25 years ago, and these were the guys they trusted and done this since, I think, the beginning.
Q Did that ever make it hard to sell the CDs to the best you would ever push back and say, you know, I'd feel a

lot better about this at Price Waterhouse, or you know, pick your big four firm?
A I can't say my role at the bank was such as last kind of closer role with a CD. I would imagine selling the CD product was probably difficult, depending on the financial advisor's relationships and scale.
Q Did you get that question when folks came down to Antigua or otherwise?
A Yes.
Q Okay, and when clients asked a question, I know you'd give the relationship story, but when they really drilled down, did you have anything else you could tell them?
A You know, you would talk, and Juan maybe answered the question. I maybe answered the question. The board of directors has talked about maybe getting another auditing firm in here but realized Mr. and Mrs. client, this is going to be expensive. It's going to erode some of the yields, though the yields won't be as competitive with these things.
Q So, was part of the answer CAS Hewlitt cheaper than a big name audit firm?
A I would say a big part of the answer was getting a big audit firm's expensive.
Q And the other side of the question being that Hewlitt is less expensive?
A Oh, I think to the client, do you want a lower yield. I think you put it to the client, which would you rather have -- 75 basis points less yield -- and also, you know, I know you could probably ad nauseam about do you even trust the auditing firm. You know, I think Juan could

probably speak to that better, Juan Rodriguez.
Q Sure. What kind of answer would you or Juan give?
A Oh, I may have used it, you know, that such and such audited Enron. Did that do you any good? You know, stuff like that.
Q So basically a big name audit firm is not a guarantee, that kind of thing?
A Yes.
Q When you were down in Antigua -- it's a more general question -- do you know of any other clients that CAS Hewlitt has?
A I do not.
Q Never had a list of references or anything like that?
A I don't recollect seeing any references.
Q Okay. Moving forward to item 8, it says: "How is leverage calculated on the overall portfolio? Most leveraging done in tier III, margin against existing securities, hedge funds that leverage is also included. Most leveraged capital used to purchase alternative funds and about LIBOR plus an 8." Okay. So let's talk about that first one. What did you know about the leverage in tier III?
A That that's trigger something. I recollect that tier III held a fair amount of fixed-income type securities, presumably investment grade. So if you were going to lever a piece of the portfolio, as this concurs, you would lever off the safer investment. Take the leverage. Take the margin, if you will, and buy into other assets to enhance your

return.
Q So your recollection is that tier III included, I guess, more safe, secure, fixed-income assets that were then levered to invest in alternative investments?
A Or, certainly, a larger percentage, just given the size of tier III.
Q So what do you know about the leverage in tier III? I guess that was just part of the strategy to lever up the alternative piece?
A Alternative investments would be levered from other safer securities. I believe there was the investment policy had a cap on that, maybe 30 percent.
BY MR. KING:
Q Did you ever discuss with any potential investor the fact that certain tier III assets would be leveraged?
A I would never use the term tier III, but I did discuss leverage, which is the same concept how leverage is used in the portfolio, and now what parameters it's limited at.
Q Just so I make sure I got it, what did you tell them?
A I would tell them that the safer, fixed-income type desk securities would be used for leverage to create margin to buy alternative investments.
BY MR. KELTNER:
Q Okay. You know, I want to sort of get through some of this just quickly as we can, so just go to item 9 on page 2 of Exhibit 7, talking to advisors. Item 9, first, that reference to advisors, that's the global network of 24, 25

advisors. Is that correct?
A No, financial advisors; well, let me read it.
Q Okay.
A Yes, yes.
Q So that's a reference to these international money managers?
A Yes.
Q So SIO is a relationship manager. So that's you, right?
A Yes.
Q This says, "On View is the global macro, top down expert. SFG analyst does all the day-to-day analysis and weekly/monthly reports. Call when I have something specific to discuss until relationship forms. They should come to us at least once a year and I will go there about twice a year.
I think when we talked to you before, you said you met a handful of the analysts on trips, or the advisors when you went over to Europe. Is that true?
A Yes.
Q So this idea that each of the advisors would come to you at least once a year, did that happen?
A It happened not once a year, but they did have their own due diligence requirements from their firm, so there were some visits to the bank.
Q So, systematically, did every advisor come visit you?
A No.
Q So ballpark it for me.

A I believe there were two firms.
Q Okay, so two firms.
A And I think they were required to come annually.
Q Okay. So those two firms came in and did their own for their own purposes?
A Yes.
Q So the other 22 or 23 advisors didn't actually come to visit?
A I don't recollect they did come in.
Q Okay, and ballpark it for me, I mean, as a reference to you going to visit the advisors twice a year.
A I did not go see them after I became CIO. I had visited them the previous year four times, ballpark.
Q Okay.
A And not all 25 of them, let's say, four times as in four trips to Europe seeing maybe six, seven.
Q And when you went back was it the same six or seven, or did you stick through all 24?
A Same.
Q So, again, when you went over and visited you met a core group of six or seven advisors, but never met the other 18?
A Yes.
Q And so this idea that you would go to them at least twice a year didn't happen?
A Did not happen.
BY MR. KING:
Q When you talked to those, I guess, with what we were calling analyst portfolio managers in Europe, what was

on the agenda?
A When I originally went I was still in the capacity of the investment advisor group, the managing director of the investment advisory group. It was my belief that Jim Davis wanted me to go to kind of see the process, you know, kind of feel the story, understand. Who knows? Maybe he was seeing me as SIO down the road, but also kind of get a picture of the global network of Stanford Financial.
In those meetings, very superficial. I would actually leave when the portfolio discussions would start. Statements would come out. I would leave the conference room.
Q Why is that?
A Because I wasn't in a senior investment officer capacity and it was still viewed as proprietary information.
Q So you were pressed to leave?
A Probably.
Q So who was at this meeting? You, Laura Pendergest, and Jim Davis?
A Yeah, it depends. Each trip was different. I think the first couple was Laura, Jim and I, but he would go visit other managers; and, sometimes, I would be with Laura. And like I said we would have an hour meeting, maybe talking about what we were doing in the states, the IRA, what they're doing. Maybe there are some synergies there. And then it's like, okay, well let's do our annual portfolio or view and then I would step out.
BY MR. KING:

Q And that happened with each of these meetings that you went to, essentially?
A Yes, essentially.
Q And you said you went four times, and each time met with, what, five or six advisors?
A Yes.
Q And typically the same five or six?
A Yes.
Q Okay. And was that pretty much universal whenever it came time to talk about the money and the financial statements, you were asked to leave?
A Yes, and it wasn't -- I mean -- some of the meetings, we might just have dinner. I mean it always varied, but I was not in any meetings when the portfolio was discussed.
Q Again, just trying to work through this document pretty quickly, skipping on to 18, page 4 of Exhibit 7: "Who's responsible for monitoring overlap of the security and fund level? SIO. Each advisor may have their own exposure to Asia, merging markets, Eastern Europe, et cetera. There are no limits to individual positions; however, portfolio does have to be diversified across all countries, sectors, regions, commodities, et cetera." So the senior investment officer, that's you, right?
A Yes.
Q So this idea that you played a role in making sure that there was no, I guess, overlap at the security level. First, the overlap, is that talking about different advisors being invested in the same thing, so you're less diversified

than you think?
A Yes.
Q Okay. So the danger is all the advisors in Enron, or whatever the example is?
A Yes.
Q Okay. And so did you actually play that role? Did you go through and look at all the reports and make sure that there weren't overlaps in the individual security positions?
A I did not.
Q Okay. Do you know who did?
A I would think in tier II Laura and the analyst monitored that.
MR. KING: How about tier III?
THE WITNESS: I don't know.
BY MR. KELTNER:
Q So item 19, quickly, there's a reference to "any plans for real estate investments in the portfolio." And there's a response back, "Currently we do not hold real estate due to liquidity constraints." So I assume that's what Laura Holt Pendergest told you, that there was no real estate exposure?
A Yes.
Q Okay. There's a reference to data liquidity constraints. Can you explain that to me?
A I believe my question was land. I mean hard assets

would be difficult to sell mark to market and what not. So it's not typically a liquid asset.
Q Okay. So was part of the story when you talked to investors we've got this investment portfolio. It's very liquid, you know. If people want their money out, we can get it quickly?
A Yes.
Q So liquidity. Was that kind of a key piece of the sales pitch?
A Yes, liquidity, and we should say -- I'm probably going to say this a lot to day -- but it was never the sales pitch to talk about the investments. It was a necessary part of the process, because everyone asked.
Q Right.
A But it was not part of our pitch. And certainly when Juan Rodriguez is sitting in the presentation, you know, it would be like all constantly remember this is a CD. So no matter what this portfolio does it's still a CD that pays. But in talking about the portfolio, liquidity was important. I don't think from the concern of how am I going to get my deposit back, but if something major happens in the world and we have to liquidate this entire portfolio, most of the securities can be sold in days.
Q Okay. And that was what the investors were told is look. If there's a giant terrorist attack, or whatever the cataclysmic event is, we can liquidate most of our positions within a matter of days.
A Yes.
Q Okay.

A And they certainly wouldn't told, you know, we've got a third of our portfolio locked up in real estate or anything like that.
Q Just real quickly, item 20 refers to SSM. It says, "Is SSM Investment a private placement or a capital investment in a venture capital firm?" What's SSM?
A I don't know. It was something I saw, initially, an investment. And I'm asking what it is, and it looks like it was probably a venture capital firm or something, private placement.
Q Okay. Were you told anything about money that was invested outside of these 24 global investment advisors? In other words, you know, were there any U.S. based firms that were used in SSM be one?
A It might, yes. I don't recollect. I know if any very little invested with U.S. firms, but I never knew the answer for certain if it was zero, five percent or ten percent.
Q Okay. Did you ever hear anything about a Memphis-based hedge fund or anything like that?
A No. No. It's possible SSM is in Memphis.
Q Does the name Jim Holt mean anything to you or James Holt?
A No.
Q Skipping forward to item 22 on the next page of Exhibit 7, entitled, "Explain credits and their potential role in the overall portfolio," then the response is: "Tier III or separate tier altogether, looking for additional ways

to diversify it, less than 20 percent of entire portfolio. These are basically large commercial loans from companies, governments, et cetera. SIBL made by these loans as well will hire underwriters and risk analysts specialists." When we talked about tier III a little bit, what are these credits?
A I have no idea. Whatever the answers refer to it's 20 percent of the entire portfolio, but I really don't know.
Q Okay. So I mean 20 percent sounds like a significant exposure. Correct?
A Yes.
Q Okay. So you until today have no recollection of what these credits are?
A You know what? I actually do recollect. I think it was something Jim Davis had talked about possibly doing; and, I think this is probably this document. It's just notes and fragments of ideas, but yes there was. And I don't know if they actually ever did it, but it would be essentially buying secondary debt in the market.
Q But aside from that, the monthly reports you got, the weekly reports, you never saw any reference to credits or anything like that?
A Never.
MR. KING: How did you know to ask this question?
THE WITNESS: It must have come up in a conversation with Jim Davis talking about that; and, I believe, I probably asked Laura: "So is this something we might do, invest in these credit commercial loans?"
BY MR. KELTNER:

Q Continuing on, item 26 says: "What is the plan and time horizon for hiring staff in Antigua?" And it talks about eventually we'll hire support staff, credit professionals, analysts, and then in parens "(unless SFG Memphis continue rotations, etc.) If Memphis ceases rotations, then probably should hire a few analysts like generalists." So what's the discussion there? Explain it to me.

A I believe to build out an investment staff permanent in Antigua at the bank.

Q Okay. What was the reasoning for that?

A Probably what you eliminate or reduce the reliance on the Memphis analyst group, which I think was the start of the genesis of the SIO and building all the investments pieces, back to when you asked me about Jim Davis approaching me. That was the one piece that's kind of been missing from the bank. So when clients are down there, prospects are down there. So where's your investment people? Oh, they're in Memphis.

Q Okay, so was the issue that they could do their jobs better from Antigua or was the issue the image for clients?

A I would say both.

Q Okay. If they're getting statements from Europe and all across the world, and they're doing an analysis presumably related to assets that have nothing to do with Antigua, does it matter where they are?

A I don't think so. I mean, unless, I don't think it

matters from a regulatory standpoint. I think it looks good and it's more cohesive.

Q So it looks good to clients?

A Yes.

Q Okay. When you had a particular big investor scheduled to rotate through to come in for their visit to the bank, was there an effort made to be certain that there was an analyst team on-site, you know, when those investors came through?

A Yes. All investors, potential investors.

Q Okay; and I think I know the answer, but why would you want to have an analyst team on-site when the investors came through?

A I think to bolster that image and to answer questions to them, the analysts would tend to be more generalist in their areas, and they would never sit in on the presentation, but they would be a part of the tour of the bank. They would go into their room and they might, you know, I would have already introduced them. Mark Collingsworth's here. He covers U.S. Equity. So they might ask questions to hear what the analyst has to say.

Q And typically how long would the interaction between the analyst team and potential client be?

A Mostly brief, like rotate through the room, kind of a meet, handshake and leave.

Q Okay. So I take it there were no in-depth questions from the investors to the analyst team?

A No.

Q Okay. And, if there were any interactions, who was

allowed to talk to the investors? Would that be Collingsworth?

A They could talk. Anyone that was there would talk, and I think 9 out of 10 questions would probably be about, oh, you cover Asia? You know, what do you think of China's government or something?

MR. KELTNER: So more superficial.

MR. KING: Did the analysts ever tell any of these potential investors that they didn't know where their tier III money was?

THE WITNESS: Not that I know of.

BY MR. KELTNER:

Q Okay, item 28: "Who monitors the parameters set on individual positions and overall asset allocation. Is this done across all tiers?" And the response back is SIO and board of directors. The SIO, that's you, right?

A Yeah.

Q And I think we've established you didn't do that?

A No. I think this more maybe held the position I was initially trained or my thought. But no; I did not.

Q Okay. And this reference to doing it across all tiers, I mean I think we talked earlier when clients asked you about how the money was invested, you didn't distinguish between tiers, right?

A Correct.

Q Okay. So if they asked you a question about what controls are in place or what did you do, the answer was general and applied across the entire portfolio?

A Yes.

Q Okay. And I think Michael has established, you know, there was no distinction made between the tiers in terms of what you did or didn't do?

A Right. We'll see if that stops additional questions on that.

BY MR. CRAINE:

Q Just real quickly, flipping the page to item 30, it says: "Where do you see the role of an SFG analyst involving over the next few years as it relates to their advisor relationships?" There's a response. "They're becoming more and more involved with the advisor relationship." It goes on from there. Were their discussions about what the analysts did in expanding their role?

A The question was, you know, at the time, I believe the analysts for the most part were receiving statements from their banking advisor, putting them into their spreadsheets, giving them to Fred, put the whole thing together, needing very little phone dialogue. What I was getting to, you know, are they going to be more involved with investment decisions. And it looks like the answer here was, you know, eventually they would go over to Europe and meet them. And maybe some of them have, you know.

Q Candidly, we've heard from an analyst or two that it was essentially a data entry position?

A Yes.

Q Does that seem accurate to you? I mean, they essentially received statements? They keyed them into a spreadsheet and then they sent them to another analyst to aggregate?

A Yes.

Q That was their primary role?

A Yes.

Q Okay, and you know, more candidly, as we understand it, most of these guys and girls/women, are in their late 20s, early 30s?

A That sounds right.

Q Typically their first jobs out of college in a lot of cases?

A Yes.

Q Okay. So not necessarily seasoned financial professionals?

A Yes.

Q Okay. And would they have even really known or had the basis to challenge or question any investment decisions made by these experienced financial advisors overseas?

A I think, yes. I think they were given, maybe they understand targets of an advisor. The advisor certainly had discretion over how they managed. My understanding of the analyst role is to just make sure that they're kind of within those constraints, so maybe some obvious red flags, you know, like they blew out of a portfolio completely that they just had one week that would go up the flagpole to Ken Weedon or probably Laura. But, no. Not to the inertia of why are you

buying these commodities and this doesn't seem like a smart investment.

Q Okay. And they certainly weren't monitoring day-to-day trade activity?

A Probably weekly, not day-to-day.

Q Without getting into detail, there's a reference here to a Gavelli, G-a-v-e-l-l-i managing tier I cash? Who is that?

A Gavelli is a money manager out of -- he 's just North of New York, Mario Gavelli. You thought you all had your run of Mario, but I think there were discussions that he would be another one of those added cash managers to that tier I. I don't know if that ever came to fruition.

BY MR. KELTNER:

Q Okay. Just throughout the Q and As, there are some questions that refer to hiring and firing of advisors. Were there any occasions where an advisor was terminated that you know of?

A There was one that was terminated prior to my arrival, I think, because there was a big turnover in personnel. Remember, the advisor, 'x' company, there's usually bankers that Stanford would deal with. I think that some had left the firm and they just felt it was best to just sever that relationship, but not while I was there that I knew of.

Q What about hiring of new advisors? Did you play any role in that process?

A Again, I met with some money managers, Gavelli is one, from a due diligence standpoint, but I did not play a

role in recommending or denying such manager.

Q So it was in any way your job to go out and look for prospective advisors?

A It was not in my job description.

Q And did you do that, or?

A I did a lot with my previous role with the investment advisory group, searching managers, so I believe maybe the reason why I was included on some of these trips to visit with potential money managers, but I was never part of the final decision?

Q Okay. Let's talk a little bit about something that's mentioned in item 38 on the next page of Exhibit 7. It says, "Is risk minimized if advisors reached targets prior to year-end." Can you talk to me a little bit about this idea of targeted returns?

A It was my understanding that an advisor would have a particular target for the year, and you bet based on market and economic environment, and the question seems to be leading to if an advisor knocks out 20 percent in the first six months, do they go to all cash, essentially removing that money off the table, instead of risking potential volatility later on in the year.

Q So how does that work though, if you hit your target return at 20 percent, but then you don't earn any money for the rest of the year. Does that then drive the return down on an annualized basis, or how does that work?

A You know, it would depend on how much that advisor has. The target returns of the bank were always calendar

year returns. So, obviously, understanding their expenses and liabilities coming due, they might target a return of 123 percent. If you're already there in September, why risk the last quarter? In practice, I don't know if that actually happened. You know, I didn't notice anyone going to complete cash at any time during the year from my vantage point.

Q Okay. But was that part of the explanation? You know, if we have these target returns and when we hit them we stop. We pull some of our money back out?

A As a potential, not a given; but it's one thing that they would evaluate throughout the years.

Q Okay. And when they got the account statements you never actually saw that happening?

A I did not.

(SEC Exhibit No. 8 was marked for identification.)

Q Just real quickly, since we're talking about returns, I'm going to hand you a document that I'm marking as Exhibit 8. It's entitled, "Stanford International Bank's ten-year investment portfolio performance." Have you seen Exhibit 8 before?

A Yes.

Q Okay. What is it?

A It's presumably a PowerPoint presentation advertising the bank asset portfolio returns from year ending 1994 to year ending 2004, the investment return; and, I'll represent to you that it came from the CD of stuff that you produced to us.

Q How would you have gotten it?

A It was an internal document. I don't know how. I think it came from Laura's group at some point. This is not something that would be hopefully shown to clients. I would have had it for my own internal reference because the questions always came up.

Q When you say hopefully it wouldn't be shown to clients, what do you mean?

A Well, I was putting my compliance cap on or even my role at the bank. Again, it's not about what the bank portfolio has done is irrelevant to the CDs as far as the clients can be certain, because this can be construed as selling an investment.

Q Explain that to me.

A The more you tout, if you will, the returns of the bank and how great they are, I think you're inevitably leading the clients to like, those are great returns. Those are consistent. But their actual return is going to be their yield on their CD. They're not getting this.

Q Right. Okay; and so again you were told whenever clients asked questions to steer them away from things like this, like Exhibit A, to steer them away from the investment portfolio and try to keep them focused on the CD itself?

A Right. But if they drilled down and asked detailed questions, you would answer as we talked about earlier. Yes.

Q Since we're talking about these target returns and what not, one thing I wanted to ask you about that we've always been a little curious about, if we look at 1995 and 1996 you see that the billion-dollar plus portfolio returned

exactly the same percentage amount, 15.71 percent. I guess, first, how hard is that to do on a $2 billion portfolio? And, two, was there a party explanation for how that happened?

A I never heard one. It's a coincidence. It's not hard to do. I mean, it's hard to do. It's not hard to achieve 15 plus percent, especially in '95 and '96. But if you're asking to get the same return each year, it is a little unusual.

Q On 25 different investment advisors?

A Yes.

Q Okay. How is that even possible down to the decimal point?

A It's a coincidence; and I've never asked or heard an explanation.

Q A coincidence? I mean a highly unlikely coincidence?

A I can't really say. That's quite possible.

Q Okay. I mean to get down to the hundredth decimal point, wouldn't you have had to return to pretty much precisely the same cash flows from one year to the next?

A I would think, and I've seen returns. I've seen mutual funds do it. Each destination is different. One might do it like this and the other one do it like this, but it's conceivable. You could end up with the same return at the end of the year, but not like this.

Q Just out of curiosity, have you seen the same mutual fund, returned the same return to the hundredth decimal point in back-to-back years?

A I think so. I think I've seen it.

Q Have you?

A I'm going to look.

Q I just assumed that might stand out to an investor to be that precise in your return numbers from year to year, and we were just trying to figure out if an investor asked and if there was an explanation for how that happened?

A I never would show this to an investor.

BY MR. KING:

Q How was this document used internally?

A I'm not sure. I don't know if advisors were doing presentations with it.

Q Presentations to who?

A Clients maybe, or prospects.

Q When you say advisors, you mean advisors at Stanford Group Company?

A Yes, financial advisors; and, I say that it has disclaimers on it. I just wanted those returns. I mean, I would answer a client's question, you know, the portfolio is done at roughly 12 percent annualized.

Q If this weren't being provided to clients, would there have been any reason to have a disclaimer at the bottom?

A No.

BY MR. KELTNER:

Q Okay. Items 39 and 40 relate to the FSRC, the Antiguan banking regulator. The first one asks how is equity treated in the overall allocation when it comes to

diversified funds, and it references an FSRC report in the answer. It says, "Funds are itemized out of individual securities, equity funds, fixed-income funds and alternative funds." What's that FSRC report in reference to?

A The FSRC is their annual report that the bank submits to the FSRC.

Q Have you seen that report?

A Yes.

Q And so it gives this itemized kind of detailed breakout of the asset classes mentioned here, individual securities and equity funds. So it's a fairly detailed report?

A Yes.

Q So it actually has the actual positions that these overseas advisors hold?

A I recollect, no, just the broad allocation.

Q Okay, so it doesn't give like a security by security, you know, Exxon or whatever?

A I don't recollect it doing that.

Q Okay, you know, we'll go through it a little later. Some of those reports were on the CD that you produced to us, or at least it appears that that's what they are. How did those come to you?

A They were given to me e-mail, probably from Laura.

Q Okay, so I guess that would be part of the year-end audit?

A Quarterly, actually.

Q Okay. So item 40 talks about -- it says -- how indefinitely I need to go with regulators. It says the questionnaire will arrive in December from the FSRC and talks about some procedures and questions that may come up. Practically speaking, what was your interaction with the FSRC folks when they came in?

A I met with them twice. They did an annual review, so there's a quarterly report but there was an annual review; and like this says, it was roughly in January, February. And I sat in on a couple of those. I guess it would have been 2006, 2007.

Q Okay, so the year-end audits for '05 and '06 were inspections, whatever they're called.

A Yes.

Q So tell me about that. What did the regulators want to talk to you about?

A The first meeting, I believe, I really kind of did my spiel on, you know, kind of the presentation: why I'm there, what my role is; but nothing beyond that. And then the second meeting the second year I don't remember saying much at all.

Q Okay, you know, you referenced the reports being fairly high level still, not drilling down to individual positions. So let's say for an individual advisor, you know, pick one, Coutts, whoever it is. Once the FSRC are seeing on that, are they just seeing like, this is our position. This is how much money we have with this advisor.

A I believe they are seeing that report, the I believe you have in your position. That's what they get. That is their quarterly report.

Q Yeah, you being the senior investment advisor or officer, was there anybody else from kind of the investment chain of command that was present for those interviews or meetings?

A No.

Q Okay, so Laura is not there. Jim's not there. Correct?

A Correct.

Q So did the FSRC ask you any more detailed, appointed questions about, you know, where the money is, what are the actual underlying investments?

A They did not.

Q Were there any discussions with the FSRC about the tiers, tier I, tier II, tier III?

A There were none.

Q Okay. Flipping the page to item 41 and 42 in Exhibit 7 there are two questions. 41: "What happens if the portfolio misses target returns, and has this ever happened?" So that question, I take it, was the typical response similar to what's here in Exhibit 7, "We never fail to hit our returns." Is that the answer that was given to clients?

A Yes.

Q So this discussion in item 42 that starts, "Assuming the worst, what risk measures are in place in case of a complete, global, financial meltdown, i.e. mass terrorist attack. So stops are in place for individual

securities." "Stop," I assume that's stop loss?

A Yes.

Q Okay. "Stop loss limits 8 to 10 percent on equities. Bonds have a no-loss discipline; generally, not bought at a premium and held to maturity. The managers, diversified funds, have to perform within their own relative performance ranges. 40 to 50 percent portfolio is invested in diversified funds." Is this a question that came up with investors? You know, what happens if I need to get my money out if something horrible happens?

A Yes.

Q Stop losses and then again back to the liquidity point. Explain the stop losses to me.

A A stop loss is you put basically on a long only position to have it sold out automatically if it hits a certain level.

Q Okay, did you see those stop loss provisions in place yourself, or do you have any first-hand knowledge of that?

A I did not see him. I don't have first-hand knowledge.

Q Okay. So who would you have gotten that from, the information?

A Laura Pendergest.

Q That they exist?

A Yes, Laura, right.

Q And this idea about bonds being bought with a no-loss discipline, I mean, what's that mean?

A It means you buy the bonds and you hold it 'til maturity, realizing your coupons along the way and barring default along the way, you get your money back at maturity. So despite the value of the actual face amount of the bond, which can be volatile, you have un realized losses, but not realized losses.

Q And a minute ago you referenced, and then there's the liquidity issue or something like that. Looking at the final paragraph of 42 where it says, "As long as there's a market to do business in, the portfolio will be traded. If worse comes to worse, could liquidate 50 percent of the portfolio in T plus two, another 25 percent T plus 5, and the remaining 25 percent in 60 to 90 days." So just so I understand that, you can liquidate 50 percent of the portfolio in two days?

A Yes.

Q Okay. And 25 percent in five days?

A Yes.

Q And the balance of the portfolio can be liquidated within 60 to 90 days?

A Correct.

Q Okay. And did you get that information from Laura?

A Yes.

Q And again that was part of a response to clients. The clients were concerned about liquidity issues?

A Yes.

Q Okay, and so in other words there were no liquidity issues to be concerned about, because we can get out of 75 percent of the portfolio in five days?

A Correct.

Q And the remaining 25 percent in 60 to 90?

A Right, and this is definitely my writing in the notes, assuming that you can get assets to the markets.

Q Assuming the markets aren't shut down?

A Right.

Q What's in that bucket that takes 60 to 90 days to sell?

A That would be those alternative type investments.

Q Hedge funds where you might have a lock-up period where you have to give notification and then wait.

A Right.

Q But certainly that's not an office building in Houston?

A Not that I know of.

Q Okay. So you're under the assumption that there's not a big real estate portfolio out there that you would have to liquidate?

A I was told there was none.

Q And you were told that by Laura?

A Yes.

Q Did Jim Davis ever tell you that?

A No. I don't recollect.

Q Okay, item 45, switching to the next page, there's a question about how often the board of advisors meets, members and bios. It says they "do not have a set meeting, but more or less advise the investment committee on a quarterly basis. Each member is an expert in their own area

and offers advice intended to shape the overall strategy of portfolio and weightings within policy parameters." First, I think you talked about the investment committee earlier. And did you say that was Mr. Davis, Mr. Stanford and Allen Stanford's father?

A You know, I don't think it was ever memorialized. It was certainly Allen Stanford, Jim Davis, Laura Pendergest was maybe joined somewhere in there, joined the investment committee. And at one time she told me O.Y. Goswick, who is on the board, was on this investment committee, but really from here it was Jim and Allen, and that's kind of the understanding.

Q Did you ever meet O.Y. Goswick?

A I did not.

Q Ever hear him on a conference call?

A No.

Q Did you ever see any indication that he was involved in managing the money?

A No.

Q Okay. What about Stanford's father. I think I've seen his name on a few lists as maybe being on the investment committee.

A Well, perhaps. He's on the board of directors, and I've met him, but I have not seen him interact with the portfolio or anything.

Q Okay, so in terms of first-hand knowledge, you've seen no indication that he was involved in managing the money personally?

A Correct.

Q Who is this board of advisors.

A It's an external board of kind of a columnist. Luis Giusti is an example.

Q Can you spell that name?

A Yes, Luis, L-u-i-s; Giusti, I believe is G-i-u-s-t-i. He is the former CEO of some big oil company, so he was kind of the energy commodity specialist. Sir Courtney Blackman, who was also on the board of directors, who was a fed governor of Barbados. So in a presentation format, you know, we worked with a dozen or so of these advisors that kind of helped shape the investment policy, the recommendations, I would reference, stick some of Stanford's affiliated companies such as the Washington Research Group, the Memphis Group, kind of just this collective, intellectual mind trust.

Q Okay. Did you ever interact with the members of the board of advisors?

A I've met some of them, let's see, in presentation formats in different events. I certainly read the research and had a few calls back and forth with the Washington Research Group and definitely the Memphis Group, that kind of interaction.

Q Okay, but as far as these outside advisors, you mentioned the individuals. Were they meetings when they came in and talked about investment strategies, anything like that?

A They were hired. I know a few of them spoke at our quarterly events, broker events. So yes, I met some along

the way. Some of the European advisors individually named might be considered on the board of advisors.

Q But in terms of an actual investment advisory committee meeting where they came in and sat down and talked strategy?

A No, that never saw that or participated.

Q So, as I understand it, most of your interaction with them was when these individuals would come in and speak at some firm event or client event, something like that?

A Yes.

Q Who's Amyric, or Aymeric?

A Aymeric is Aymeric Martinioa. I'm sorry. What was the question?

Q I think it says "Aymeric will provide member lists and bios," at 45.

A He was Jim Davis's executive assistant or assistant during this time period, 2005, 2006, 2007.

Q Oh, Amyric, I'm sorry. Yeah.

A Martinioa, M-a-r-t-i-n-i-o-a.

Q Is there more you want to do on the spelling?

A I'm done.

MR. KELTNER: Michael, did you have anything else?

MR. KING: Why don't we take a quick break?

MR. KELTNER: Let's go off the record.

(A brief recess was taken.)

MR. KELTNER: We'll go back on the record at 11:45. I just want to go ahead and tick through a few of these other Q and A documents. So I'm going to mark as Exhibit 9 a document entitled, "Treasury meeting 12/9/05," and hand that to you.

(SEC Exhibit No. 9 was marked for identification.)

MR. KELTNER: I know you've had a brief opportunity to review it before we got started. Do you have a copy Patrick?

THE WITNESS: Yes, I do.

BY MR. KELTNER:

Q So what's this document?

A This is from notes on December 9, 2005, of a meeting I had with Patricia Maldonado who is the manager of the treasury department of Stanford Financial Group.

Q Okay, and so does this meeting, did it take place in Houston or Memphis?

A Houston.

Q Okay, so was anybody else there with you and Patricia?

A It was just her and I.

Q Okay. So again, are these notes that you're just taking live, presumably on your laptop? Would it have been your practice to take written notes and then go back and type them up, or would you typically type them?

A These were written and then typed up.

Q Why do you know that with respect to this? Was it something that stands out?

Zarich_Michael_20090204.txt

A I remember.

Q Why did you go back and type them out?

A Well, it's just--

Q Your note-taking?

A Yes, you see, writing up I guess to commit it to memory, just to review them and have them. This meeting of course was part of my training as SIO, so I guess to have a more codified. These are for me.

Q Did you put it in a binder or did you just keep the electronic files?

A Electronic.

Q What was the purpose of your meeting with Patricia?

A To discuss her role, which is manager of tier I cash, and just how that process flows, what it entails.

Q So was this just so you were going to play a role with respect to tier I cash, or is this just so you would have an answer when asked, the purpose of the meeting?

A More or less just to have an answer or just to understand the process of having spent the bulk of the trade up until then with Memphis, just to get a feel for, you know, how at least this portion of the portfolio is managed.

Q Okay, so what cash is it that runs through Patricia's group?

A It was my understanding that all the cash of the portfolio was held in tier I cash.

Q Okay, so tier III sells an asset. Does that cash, you think, end up in tier I cash?

A I think there is. Yeah, tier II and III would inevitably accumulate cash during the course of business

Zarich_Michael_20090204.txt

depending on it's too much, too little, whether it's going to be redeployed into investments in tier II or III, it would go back to cash. Tier I is I recollect Patricia is a very dynamic piece, so depending on what kind of expenditures or CDs are coming in or do go out, is how much they kind of keep them there.

Q Okay. We'll go through this in a little more detail on that, that when you were in your SIO role, were there any significant liquidations of investment positions or significant going to cash transactions?

A Not that I knew of.

Q Remember when you left?

A July of 2007.

Q The second paragraph or I guess third paragraph starts, "There is a service agreement in place between the SIBL and SFG treasury. In addition to shareholder reserves treasury is responsible for overseeing and allocating management fees received from SIBL."

A The service agreement is tipped to run the cash from the bank, so I guess for a fee they would get. They're affiliated companies but separate companies, so SIBL would pay Stanford Financial Group for their services to manage the cash.

Q Okay, yeah. I think I see on the financial statements annually a management fee being paid from the bank for a whole host of services?

A Yes.

Q Okay. Those management fees that SIBL paid, where

Zarich_Michael_20090204.txt

did they go? Do you know who ended up without the money?

A Depending on who they paid, I'm not sure if that includes the manager fees. It's been a while since I've looked at the annual report, but you have the management fees or the banks, and advisors that are running the money, and then you have fees for legal, treasury. Memphis I'm sure for the research has paid a fee, so there's probably fees going out to all these affiliated companies to service the bank.

Q What do you know about the structure of those entities in terms of who owns them?

A Allen Stanford is the single shareholder.

Q And is that pretty much true across all the entities?

A Yes.

Q Is that the consistent story when people are asked? I mean is that something you know firsthand or just been told?

A I would say been told.

Q But that's generally what, when people ask who owns Stanford, the answer is Robert Allen Stanford.

A Yes.

Q Okay. And to your knowledge does Jim Davis have an interesting?

A I don't think so. I don't know.

Q Okay. The following paragraph, Exhibit 9, starts out: "Cash sits at three correspondent banks: TD, Toronto Dominion, HSBC and National Republic." Obviously, TD is in Canada. Do you know where the HSBC and National Republic branches are?

A I recollected that it's the London branch.
Q Okay. Is National Republic a London-based bank or do they just have an office there?
A I thought that was U.S.
Q Yeah.
A Or is. I'm sure they've been bought out.
Q Okay. Just more generally and in this treasury meeting, what were you told about who controlled the cash? I mean did Patricia have discretion to issue wire transfers? Who's managing it?
A She's managing it. I can't remember. She might have had some discretion, but she reports to Jim Davis. He's the chief financial officer, so he had ultimate discretion.
Q Okay. I guess there's a reference a few lines down to executing transactions. It says getting approval on transactions over one million from Mr. Davis?
A Yeah.
Q So it's consistent with what you remember Patricia you Mr. Davis signed-off on the significant letters?
A Yes.
MR. KELTNER: I think that's all I have on that one. I'm just going to go through them in chronological order. I'm handing you a document I'm marking as Exhibit 10.
(SEC Exhibit No. 10 was marked for identification.)
MR. KELTNER: It's entitled, "Client SIBL questions." I'll give you a brief chance to look through this document here.

(The witness examined the document.)
BY MR. KELTNER:
Q Can you tell me what Exhibit 10 is?
A These are a compilation of questions that would be deemed as typical client questions that would come to the bank.
Q Okay. I have to go back and check, but I think this document dates to probably a time after your training was complete. But to your recollection was this done while you were still in Memphis?
A I would think while I was still in Memphis or around that process.
Q Okay.
A But I could be wrong.
Q So were these actual client questions, or were these illustrative client questions?
A These would be a compilation of, I think, kind of a top whatever here, 20 questions that Laura Pendergest had received over the years in her role as CIO and to anticipate these questions over and over or variations of that.
Q Okay. When we talked about one of the prior exhibits, I think you said they were questions that you would come up with during your training.
A Yes.
Q This Exhibit 10, are these questions that were given to you by Laura or are these your own questions?
A The questions were given to me and the answers were also given to me, but I don't know if it's in my writing. I'm going to guess it was in my writing, because I would

probably want to be conscious of answering it from my knowledge base.
Q Okay. So you think Exhibit 10, maybe, you got the list of questions from Laura, and when you sat down with Laura and she gave you the party line or the answers?
A Yes.
Q I'm going to try to skip over some of the questions that are duplicative and the answers seem to be duplicative of prior exhibits. But skipping forward to item 6 of Exhibit 10, this question, how does the bank pay such high rates, I think we talked about that a little bit. Was that a recurring question that you got from investors?
A Yes.
Q Okay, and high rates rolled into what?
A They're presumably U.S. rates, but where the clients come from; and it depended. I mean, there is not necessarily the CD in some countries, but pace lower rates or typically a U.S. client or a U.S. rate or a London-European rate, why are the CDs higher?
Q Just generally. I mean, I know it changed a little bit over time, but what was the spread between SIBs, CDs, and, you know, a U.S. bank?
A To LIBOR or U.S. CDs with equal maturities, probably about 300 basis points.
Q So in five years you might see 600 basis points at Stanford, and 300 at a U.S. bank?
A Yes.
Q So, you know, you can read through the items on 6,

but generally what was the answer given to investors when they asked?
A We've covered on some of this. It's a unique or at least a distinctive banking model. It's first and foremost. It's domiciled at a zero, low-tax jurisdiction, so there's no corporate tax. There's no loans, so you don't have loan reserves. You have the flexibility of an investment portfolio that could capitalize on various opportunities in global markets. The very low overhead of employees, I think that ties into legal, H.R. A lot of the other functions are paid out so you don't have to hire people at the bank. I guess the board of directors sets their own rates so you're not tied to a reserve or like a local bank that's required to take money out or lend money out in the community.
Q What about the sentence here in item 6, where it says: "We have a single shareholder, therefore we do not have to pay shareholder dividends?"
A Privately held, right. You know, if they're a private company, you don't have to pay dividends at the end of the year. I think there's an extension to that in a shareholder who has not taken very many, that I remember, dividends at the end of the year and just reinvested into his own bank.
Q I think I've heard an expression, Robert Allen Stanford or Mr. Stanford has never taken a dime out of the bank. Was that kind of a recurring theme or was that part of the Stanford story?
A Yeah, I don't know if it's ever, but I understand that he rarely took a dividend, a profit at the end of the

year that he just reinvested his retained earnings.
Q Okay. And that's speaking of the profits from the bank itself?
A Yes.
Q I guess that doesn't take into account management fees, referral fees, things that were paid to the broker-dealer?
A Correct.
Q Because I think I remember in '07 referral fees were about $140 million and management fees were about $150 million. Does that sound ball park?
A It was a big number. What's the percentage? That sounds feasible.
Q Yeah, I mean, the referral fees on the CDs were three percent, right?
A Okay. Oh, you know, I think it depends. To sell a CD you mean?
Q Hm-hmm.
A I think it varied from country to country. I believe it was three percent of the United States to the firm and to the broker.
Q Three percent went to the Stanford Group Company broker-dealer?
A Yes.
Q Okay. And then there was also a management fee

component that was a percentage, I think, of assets under management or something like that. I think we've kind of covered management fee service agreements, but also the management fee to those running the assets of the bank?
A Right, yeah.
Q So here I'm looking at a copy of the '07 financials. I'm showing you referral fees of 149 million in 2007 and management fees of 143 million. So that money would all go to one of the Stanford Financial Group companies, right?
A Hm-hmm.
Q Is that a yes?
A Yes, sorry.
Q That was for Terry's benefit.
A Yes.
Q And the sole shareholder of those entities is also Robert Allen Stanford. Correct?
A Yes.
Q Just real quick, there's a couple things in item 7. I mean it's a similar question: "How do you achieve your returns." The reference in the last paragraph on the page that starts, "SIBL utilizes 20 plus advisors primarily located in Europe and Canada. Many of these advisor relationships have been around since the inception of the SIBL portfolio." This language, I think you told us that it's kind of a consistent sales message that's given to the clients?
A Yes.
Q One other thing I wanted to touch on in the last

paragraph of item 7 on the following page that s tarts out "The investment discipline dates back over seven years with Stanford, and 20 years with the SIBL portfolio." What was your understanding about the pre-SIBL track record or the pre-SIBL experience? What's that in reference to, the 50 years before the 20?
A Well, the company I guess, was the grandfather of Lotus, started the company about seven years ago as an insurance company. So this to me is in reference to the success of the insurance company. It's my understanding that second generation and then the third generation kind of divested into more real estate investing. And ultimately Allen Stanford real estate investment in the Caribbean and Mexico led the bank as a place to park profits that he had made for his investors.
Q What was the insurance company? I mean was it a nationwide like State Farm or was it like an agent?
A I want to say, and I didn't know. There wasn't a lot of training on this but I just want to recollect it was a regional maybe property and casualty. It was kind of a local, Mahaia, Texas, spawned out of the depression insurance company.
Q So you think an actual insurer as opposed to like an agency that sells insurance?
A I was led to believe an insurance company, an insurer, yes.
Q Is that kind of the sum total of the history you were given regarding the Stanford Family businesses?

A Yes.
Q Was that one of the selling points for Stanford bank? You know, we've got this seven-year history. We've been around forever. Was that the kind of thing that showed up in marketing materials? I think I've seen pictures of Lotus, things like that.
A I think in the marketing material there's reference to seven years, three generations, family-owned, but not really at the bank. I personally didn't know, as I just exhibit a lot about the history of the firm. You know, prior to the bank, as it pertains to selling the bank.
Q It's not much of a budget for cuts. Just real quickly, item 8 is entitled, "How safe are client's deposits and what guarantees exist for payment of interest." I know we've gone through some of this, so I don't want to belabor it, but the first sentence starts with, "From an investment standpoint, hopefully, is very conservative." Explain to me how it's conservative?
A From a diversification standpoint, conservative in that you're spread-out amongst a lot of our asset classes or all asset classes. In addition, countries and currencies, so you're not exposed to large concentrations of risk in whatever market you're in or investment.
Q But not necessarily in terms of it's all in government issued securities or fixed-income, it's not conservative from that standpoint?
A Correct. Conservative from a diversification standpoint and to a discipline of staying within your parameters of that discipline, of that allocation, I should

say.

Q Okay. Again, I'll skip over some of the stuff we've covered, but in the paragraph below, there's a sentence that says, "The SIO cannot transfer money in and out of accounts and can only request transfers and wait for Mr. Davis's approval." Just to clarify, that role wasn't your role to manage the money to request transfers in and out. Correct?

A That would be I think in the perfect execution of that position or realistic execution of that position the SIO would essentially maybe take over Laura Pendergest's role, could see that we move money from one advisor to the next but would have to be approved.

Q Okay, but when you were there that was more Laura's job?

A Yes.

Q I real quickly want to touch on something you mentioned in the last sentence of item 8. There's a reference to excess FDIC insurance. What is that?

A I think it's a separate policy. No, actually, I think it's a policy with the actual funds held at corresponding banks in the U.S., because FDIC has access insurance. So whatever's held at this national republic, there's insurance to cover over the, whatever, the 100,000, 400,000 FDIC limit is. Presumably, there's probably millions in this account.

Q Sure. I think before you told me you thought that money was in a branch in London?

Zarich_Michael_20090204.txt

A HSBC.

Q You think maybe the Republic Bank money was in the U.S.?

A Yes, I believe that's a U.S. bank.

Q Why would it be called excess FDIC insurance, when it sounds like most of the money is in Toronto, London?

A I don't understand FDIC, but it would have to be insurance on whatever banks are used in the U.S. to call it excess FDIC insurance.

Q Okay. Candidly, one of the reasons we ask is because, you know, we've heard stories with, perhaps, supervisors, particularly folks selling outside the U.S., but also maybe within the U.S., as part of the sales pitch would strongly imply and/or say these things are insured. These CDs are insured, and throw around words like excess FDIC insurance. One, did you ever see anything like that or here anything like that in a pitch?

A I did not. And I rarely participated on the sale side, you know, in the U.S. It was mostly in Antigua, a few times, by conference call. So I have not witnesses, and I'm sure I would have stopped it if I was in that meeting.

Q Because clearly CDs are not insured?

A That's correct.

Q Okay. And in your interactions with clients, did anyone ever ask, hey are these things insured or is there anything like FDIC insurance?

A Yes.

Q And what would the response be?

A Typically, steer back to the investment process and

Zarich_Michael_20090204.txt

somehow get back to that safety of assets and the process, government oversight.

Q They're not FDIC insured, but all this other stuff?

A Right.

Q Nine, just touching on it real quickly, says, "How liquid is the portfolio?" And the response back, "Extremely liquid. Up to 50 percent can be liquidated in two plus two; 20 percent in two plus three; and then the remaining within 90 days." So again this is information that you got from Laura, correct?

A Correct.

Q So, again, juts rough math, 70 percent of the portfolio can be liquidated in three days or less?

A Excuse me, correct.

Q And that's what Laura told you?

A Hm-hmm.

Q And the remaining can be liquidated within 90 days, the balance of a portfolio?

A Yes.

Q Okay. And item 10 touches on something we talked about a little bit earlier. Will the bank publish individual portfolio positions? It says, unfortunately we're not allowed to disclose individual positions because of banking regulations. And that's generally, I think, consistent with what you told me before today?

A Yes.

Q Those banking regulations, are those Antiguan banking regulations or were you told anything about that?

Zarich_Michael_20090204.txt

A Antiguan banking regulations, yes, as a charter bank in Antigua, we were bound by law, I guess, for lack of a better word, to hold ourselves out to be that as a bank and not an investment vehicle.

Q Okay. Were you ever told that the law specifically said we can't tell you what's on our portfolio or was it an issue?

A Yeah, I do. I think it was how you hold yourself out. I don't recollect it being specific. My understanding of the training is the more you get into it. The more you keep talking about it and lifting up the hood, the more you're emphasizing the investment side.

Q Okay. So, again, the consistent theme of steering investors away from the investment side and back to the terms of the CD?

A Correct, yes.

Q The following paragraph says investment should only be discussed from an investment philosophy or macro perspective. The only product SIBL offers are certificates of deposit. Therefore, the investment portion of the portfolio is really moot. The important issue to the client should be terms of CDs, rates, financial strength of the bank, operational efficiency of the bank, regulatory environment, et cetera. And that seems to encapsulate kind of what you told me was the party line when people asked about the returns.

A Yes.

Q The next paragraph says "Regulatory language states do not hold yourself out to be a fund." Is that hedge funds?

Is that what you meant when you typed "fund?"

A Correct. The question came up a lot. You're really just a fund to funds with a guarantee or it's just one giant fund. That's a quite, I think, just as an emphasis. I don't think it's taken from any direct language. But don't hold yourself out again.

Q Okay, so you were coached. You know, be very clear that we're not a hedge fund. We're a bank.

A Yes, very.

Q And that was a recurring question you got from investors?

A Okay.

BY MR. KING:

Q And item 10, the next paragraph says "We can mention advisor relationships, but generally do not in order to protect their privacy and avoid clients calling direct to an advisor." What does that mean?

A The European advisors, there was a time where there was almost held in the strictest of confidence, but they've kind of given us an okay. I'll name some of the advisors. Credit Suisse response to the Societe Generale, but this is at a point we wouldn't want clients circumventing the C&E, potentially going straight to these advisors.

Q Okay, so not that you ever did this, but it's possible, I guess, or you could have provided a list of all

of the third party advisors to a prospective client. Right?

A I could have. I was trained not to, maybe, say a few. And I was never pressed for all of them. Again, kind of like what I've said. You know, there was just the kind of the obvious ones I would rattle off, and everyone was like, okay.

MR. KELTNER: Did those tend to be the well-known names, the Coutts, the HSBC, that kind of thing?

THE WITNESS: Yes.

BY MR. KING:

Q But in theory at least, if you could give them some, you could have given them all had you been pressed?

A Yes, all the ones I knew of, all dozen or so.

Q And yet here, I think you told me before that you were clear, the advisors that you would get had asked about third-party LIBOR would have been advisors to money that was located in tier II. Correct?

A Correct.

Q And you don't know of any advisors that are actually managing money in tier III?

A No. I don't know. Actually, I had not seen statements or been in any meetings, but I know, as I mentioned, Jim Davis would meet with some of these same banks on his own.

Q But you don't know what they were talking about?

A No.

BY MR. KELTNER:

Q And I think you told me earlier today that those meetings that you went to with Mr. Davis were prior to you

becoming the SIO?

A Correct.

Q So when you were in those meetings they didn't discuss tier II while you were there?

A That's correct.

Q And nor did they discuss tier III?

A Correct.

Q So it's not like they had a tier II meeting with you, and then they said you need to leave, we're going to talk about tier III?

A Right. That's correct. And I'll add to that that typically Jim and Laura did separate meetings as well, which made me believe that there was overlap with tier III and tier II. Why there were two different meetings, and you know, I don't know.

MR. KING: So go back to the original question which is if a prospective client asked you for the names of these third party advisors, the names that you could have been provided, would have only been those for tier II?

THE WITNESS: Yes, that's correct.

BY MR. KELTNER:

Q Just to tie out a couple of issues on the fund to funds question, item 17, a couple pages ahead in Exhibit 10, says: "Is the portfolio a fund to funds?" And I think you said this was a common question you got from investors?

A Yes.

Q Okay. Just reading the answer seems to be "It's nothing like a fund to funds by definition and legal

structure. SIBL is a bank and offers only banking product. All banks have investment portfolios. The only difference is most banks' portfolios are allocated more towards loan portfolios versus investment portfolios. SIBL does make loans, but they are cash back and represent less than five percent of the entire portfolio." So, again, the primary distinction between Stanford and National Bank and a commercial bank is how the money's invested?

A Yes.

Q Right. Is there a real distinction between how a fund to funds invests its money and how Stanford invests its money?

A Well, a fund to funds is primarily specific to a strategy. You might have a market neutral fund to funds that looks for equally long and short positions and they might have 10 managers to do that; whereas, the bank has equity and bonds and commodities, kind of the whole gray. But if it's anything, it's a multi-manager approach.

Q Okay, but invested through sub advisors that manage their own funds?

A Correct. I think a lot of this, maybe it says it in there too, is clearly a structure of a fund to fund is the limited partnership or an LLC. It's not liquid. It's locked up. There's high fees. So it's volatile.

Q Okay, so the primary distinction is not how the money's invested, as I hear it, because Stanford International Bank is invested in the portfolio securities just like a fund to funds would be. Right?

A On a grander scale, yes.

Q When you get down to the core assets, the fund to funds is going to be invested in securities bonds, alternative investments, and Stanford has invested in those same types of assets. Right?

A Yes.

Q So the real difference between Stanford and a fund to funds is just in terms of the economics of the transaction between the investor and the firm. In other words, I think what is said later on in this document is fund to funds requires, you know, your pay, your two and 20. Your two percent management fee and your 20 percent fee on top of that, and there's lock-up provisions. And the CD is just a time deposit where you pay the fixed interest rate.

A Yes.

Q So when you say that's different from a fund to fund, you're talking about that distinction, not necessarily distinctions to how the money is invested?

A The structure is a big distinction. Correct.

Q Okay. One of the things you talked about was the money being locked up. The CDs were typically for a time period, right?

A Yes.

Q They're typically what: one year, two-year, or five-year?

A Up to five.

Q Okay, so that vive-year money is locked up for five years in theory, right?

A It's actually liquid. It's like a minor penalty if

you get out. The client could get out at any time.

Q Can you do that with respect, because you talked about the liquidity of the fund investments that Stanford could liquidate everything within 90 days?

A Yes.

Q Right. So you can get out of those funds as well, can't you? You have just have to pay an early redemption fee?

A Specifically, I mean yes, depending on that particular investment and, you know, the parameters of it, the agreement.

Q Okay. But your understanding was that Stanford could get out of all its investments essentially within 90 days?

A Yes.

MR. KELTNER: Let's go off the record. Take a break.

(Whereupon, a luncheon recess was taken.)

A F T E R N O O N S E S S I O N

MR. KELTNER: We'll go back on the record at 12:50. So we've been going through a number of Q and A documents. I think we're done with the one we were just looking at.

(SEC Exhibit No. 11 was marked for identification.)

MR. KELTNER: I'm going to hand you a document that I'm marking as Exhibit 11, and it's entitled "Questions from Role play," and came from the documents that you produced to us on CD. And I think this one's the one: "Questions from Role Play II," I think is what it's called on the file.

(The witness examined the document.)

BY MR. KELTNER:

Q Just at a high level, what is this document and what do you connect it to? What was going on?

A This was part of my training. It was well, in the fall of 2005, there was a week or two where the Memphis analysts actually sat in as clients. I don't think they were given specific questions to ask, but I guess more of a live baptism by fire. I think I was given like an hour with each of them, sometimes in groups, and they were basically lobbing questions at me and I would answer them as I would in front of a client.

Q Okay. So was this towards the end of a process?

A Probably. Yeah, definitely through some of the initial training.

Q Did Laura participate in the questioning?

A No. I don't think so.

Q So she sat in the room during the Q and A session?

A Yes.

Q Okay. Just so I understand. Analysts sitting across from you pretending to be a prospective CD purchaser?

A Yes.

Q Okay. And so the analysts are peppering you with questions and you're answering?

A Yes.

Q Okay. Did Laura help you with the answers? In other words, if she thought you needed to modify answer, did she give you some guidance?

A I think this is digging deep into memory. I think afterwards. I want to say the session went on and then it was the meeting afterwards. We did get here, maybe this here. This here, and I'd have to look at, well, obviously these notes would have been done afterwards as well, because I would have been busy answering questions.

Q Sure. So who's taking down the questions? I mean did you do that during?

A I believe as I mentioned this third party, mystery lady Tamara. She took them down.

Q Okay. This mystery lady, was she a long-term Stanford client, or was she brought in just to prep you?

A She was an external consultant and I want to say her area was people, personnels and cultures. No, she stayed on retainer. I think she worked with other areas within the Stanford organization.

Q Okay, and did she give you her background or tell you hi, I'm so and so. This is what I do. That sort of thing?

A She did. I don't remember. She showed up to one of our investment committee meetings. When I say investment committee, back to the Stanford Group days, presented something.

Q So she and Laura and you are the ones that are in the room the entire day and then analysts are rotating through and asking you questions?

A Yes, not the entire day, but we did one group a day or something, I guess.

Q A group, how many analysts is that?

A I think only two in each of these meetings.
Q Okay. Who were the folks that were asking you questions?
A I think it was the whole team.
Q Okay.
A Do you want me to name them?
Q If you think it was the whole team, were there any folks that stand out? I mean people who you talked to for longer periods of time? Who were some of the more senior people? Anything like that?
A No. I will laugh, because I know the first question came from Zack Davis and it was what do you do. And I remember being completely caught off-guard, because I don't know, so I think this is a more polished answer here.
Q So you're asked all these questions. You give your answers at the time and then afterwards you consult with Laura Pendergest and the consultant?
A Yes.
Q And they give you some suggestions on how you should answer the questions?
A The consultant, she was more of a facilitator, a note taker. She would help me presentation techniques and stuff. She had no part of the nuts and bolts of the training.
Q So all the substantive issues, the feedback was

Zarich_Michael_20090204.txt

from Laura Pendergest?
A Yes.
Q Okay. Was there anyone else involved in the feedback process?
A No.
Q Okay. So, this Q and A document were questions from Role Play document Exhibit 11? Is this something you would have then gone back and talked to Laura about to see if the answers made sense?
A Yes.
Q Okay. So you compiled your own answers after you've had all this interaction?
A No, I think these are more polished. I mean, if I could read through a couple?
Q Yeah.
A Because the Role Play would have been very raw.
Q Oh, sure. And these polished answers, are these your answers after the fact that Laura reviewed, or are they Laura's answers that you took down?
A It would be a combination. Now, whether she wrote the answers down, it was probably me writing the answer down. You know, formalizing them and then giving them to her for editing and proofing to polish them up.
(The witness examined the document.)
BY MR. KELTNER:

Q Okay. Are you ready?
A I apologize. I reviewed.
Q So in the first response to the question, "What do you do," again the message seems to be that your role is to

Zarich_Michael_20090204.txt

oversee the bank's investment portfolio.
A Hm-hmm.
Q And that's not in practice what you ended up doing. Right?
A That's right.
Q And the note in here about you reporting the Juan Rodriguez?
A Yes.
Q Was he who you actually reported to? Was he your direct supervisor?
A Yes.
BY MR. KING:
Q What was Juan Rodriguez's role in managing the portfolio of assets?
A He would work with investment committee, but I do not know to the extent of how much information he was privy to. I know that he has made at least one trip, maybe multiple trips to Europe.
Q How do you know he works for the investment committee?
A The quarterly FSRC report and annual report is

done, and my understanding from his office, so he would have to get the pieces of investments to bundle it into the entire report that would go on to the FSRC.
Q Did you know what information he was provided with so that he could pass it along to the FSRC?
A I would guess he was provided with the allocations, the breakdowns of assets. I don't know, again, how granular

Zarich_Michael_20090204.txt

he saw things.
Q So you don't know if he saw individual positions?
A I don't know.
Q Now, you worked for him, right?
A Yes.
Q Did you discuss with him whether he was aware of individual positions, for example, in tier III?
A Never.
BY MR. KELTNER:
Q Did you ever talk to him about the investment portfolio?
A No, other than in front of clients. I mean, not together really, were presenting to clients.
Q So your senior investment officer. He's your direct supervisor but you never had interaction regarding the investment portfolio?
A Correct. It was the proverbial, definite dotted line to the investment committee and Laura in Memphis.

Q For you?
A Yes, that's where I got all my information. That's where all my interaction was. He made sure I was on island. He's still my boss, approved bonuses and travel and day to day supervision.
BY MR. KING:
Q Other than day to day supervision and compiling the FSRC report and transmitting it to them, what other responsibilities did Juan Rodriguez have?
A Certainly to present the clients that came to the bank and then just to run the day-to-day operations at the

bank to oversee operations and compliance and client services. You know, keep it running efficiently and sound.

Q Okay. And when Juan Rodriguez was presenting to a potential client, were you typically present during those meetings?

A Yes. I was always.

Q And I know we've asked this as to you. We've asked this as to the analyst, but I'm going to ask you as to him now, which is "Did you ever hear Juan Rodriguez differentiate between the various cheers at the bank and his conversations with respective clients?"

A No. He did not talk about the tiers in front of clients that I heard.

BY MR. KELTNER:

Q How many of these client meetings did you and Mr. Rodriguez do, ballpark?

A About average. A couple a week for about a year and a half.

Q Okay. So 25 or 75 times? 100, 150, somewhere in there?

A Yes. You know, some weeks none; some weeks 10.

Q Sure, and these are all five million plus prospective investors?

A Some. I mean different groups sometimes recruit financial advisors that were being recruited to work at the company. They might bring them down to the bank, they being Stanford Group Company, to educate them on the bank. Yes, certainly, the bulk of them were prospective clients,

sometimes existing clients that might be on island vacationing that just kind of come in. But, yes, it's typically a high-end client prospect that would come to the bank.

Q I think you told us that your interaction with the client was at the very end of the process and that they had already talked to the advisor? They were, I guess, doing their diligence. Is that fair?

A Yes. The stop at the bank would, you know, presumably be the last step to fly there, see it and meet the people, see the organization and all the pieces in place. I think, hence, the reason, you know, the genesis for this SIO position is to have that last piece in place so that you see your operations in compliance and investments. And they're all right there at the bank. And the close rates were very high at the bank by that point. But, you're right. Advisors have been working potentially years or months with these prospects.

Q Okay. And you kind of jumped to the question I was going to ask next, which was given how far down the road you were in the process, did you pretty much close the deal a very high percentage of the time? In other words, after they came in and met with you and the bank president, typically was the sale then consummated?

A Yes.

Q Was it the exception where somebody came in and met with you all and decided not to invest?

A Yes.

Q Okay. Could you ball park it for me?

A I heard Juan mention 99 percent, almost all.

Q So virtually every customer that came down and met at the bank ended up buying CDs?

A Yes.

MR. KING: Was your compensation tied to that percentage?

THE WITNESS: Now, my bonus was tied to growth at the bank. Base salary was just base salary. I think we talked about that on the phone a couple of weeks back, but it tiered. I don't remember the numbers, but if the bank brought in 50 million net new and a quarter 'x' amount, I think the max was like if over 200 million came in, you might get like two months salary on that quarterly bonus.

BY MR. KELTNER:

Q So like in '06, which you were there for the whole '06 calendar year?

A Yes.

Q What ballpark of how many months of bonus did you get for '06?

A Six months.

Q Okay.

A I mean, as you all know, the growth has been pretty extraordinary, so all the 200 million thresholds were met each quarter. So that came out to an extra six months salary for that entire year.

Q Just to clarify for the record, when you say net new money, you mean new CD sales, less money that came out of the bank?

A Correct.

Q Did I say that right?

A Yes, I mean, not just new. You could have 500 million new, and 700 million. It had to be net new.

Q The bank had to be growing?

A Yes, assets minus.

Q Redemption.

A Contributions plus redemptions.

MR. KELTNER: That's clear. Thank you.

BY MR. KING:

Q Did you ever have conversations with Juan Rodriguez about the FSRC examinations?

A Not that I recollect. Like I mentioned there were two here at the end of the meeting. The questionnaire, the annual one, a questionnaire would come in like around the end of the year and then it would go to the various departments. And then the investment piece would go to Laura and Jim to fill out. And there's pieces on the client information would go to the different departments and he was ultimately responsible for, I guess, the role up and submitting it to the FSRC. The same with the quarterly ones.

BY MR. KELTNER:

Q I just want to hit one more point on this Role Play. Most of it I think is repetitive, but item 3 where it said "The Memphis Group manages the portfolio." It says "SFG Memphis does not manage the portfolio, but rather assists me in the day-to-day monitoring of the portfolio."

A Yes.

Q Is it more accurate to say they assisted Laura

Pendergest in managing the portfolio?
A Yes.
Q Okay. And that wasn't your role?
A Yes. I think, and that would go with your first question today, what position was presented. And it wasn't necessarily going to be at day one, but that I would evolve as SOI and to seeing more of it, doing more of it. That never happened.
Q Okay. And did this oversee the bank?
A And I see how it's misleading, but it's really meant to be monitoring, not controlling the assets. So I want to just make that point.
Q Now, and you know, that's kind of a recurring theme throughout the documents where he talks about you doing things that actually it looks like to us Laura did?
A Yes.
Q And I guess, you know, you can't leave the question unasked. I mean was the point of all this to give the impression that a person who was managing the money was in Antigua?
A No. I mean not all the clients. It was just to have a spokesperson there that could talk about it credibly and, you know, in front of clients. I mean I was always the one who would be clear. From day one, I do think, you know, that I thought I would have monitored more of it including

tier III. But maybe I was naive. Maybe I thought that was a trust issue after months, or you know a year at the job. More of it would have been opened up to me to truly be monitoring it as some of the training material dictated.
MR. KELTNER: Okay. I'm going to mark a document as Exhibit 12.
(SEC Exhibit No. 12 was marked for identification.)
MR. KELTNER: It appears to be a PowerPoint presentation with a title at the top of the page, "Senior Investment Officer." And in the lower left corner, "Stanford International Bank Limited." And then a picture. I assume that's the bank that shows up in all the literature?
THE WITNESS: Yes.
BY MR. KELTNER:
Q Feel free to take your time and just kind of thumb through this PowerPoint slide. And, again, I'll represent to you we got this from your production off of your CD. Where did Exhibit 12 come from?
A This was a portion of the presentation that was conducted to visiting prospects of clients at the bank, particularly my piece of presentation.
Q Okay. So this would be the piece that you would present to the client, the prospective client?
A Yes.

Q Okay. So consistent with this Exhibit 12, you know, how did you explain to the client again what your role was?
A To work with the investment committee, to represent

the portfolio, talk about how it's allocated, the process of that. The process of staying within line of the investment policy statement that the board of directors puts out, the targeted returns on an annual basis, that the investment site is compliant with quarterly audits and the annual review. And then it's thoroughly allocated to portfolio diversification from a risk standpoint.
Q Just walking through the bullet points on the first page of page 12, it says: "Insure investment portfolio within parameters of the investment policy statement." Is that something you did?
A No. I did not do it per se to move assets, but to talk about how it's done from an asset allocation standpoint; and, as it says on slide 3, how much in equity, how much interest income.
Q Okay. And again the next bullet point saying that targeted returns are achieved. It was not your role to achieve the goals, correct?
A Correct.
Q It was your role to present, you know, how it was managed but not to actually do bullet two?

A Correct.
Q Okay. And also strategically positioning the portfolio to mitigate risk, that would have been the Memphis team who actually did that? Or the investment committee.
A Okay.
Q And so again, we kind of have to ask the question. I mean, the title of the slide is "Senior Investment

Advisor." And so the face value, if you look at it, it looks like this is for training and these are the things the senior investment officer does. And so that's the question, you know.
A My thought is the senior investment officer is a spokesperson for the investment committee, how the portfolio is allocated, why it's allocated, how it's managed, how it's monitored, that I was there as senior investment officer to speak on the behalf of Allen Stanford, Jim Davis, Laura Pendergest.
Q And, again, this Exhibit 12 was part of the larger presentation that was used every time clients came in?
A Yes.
Q How would you present that? Would it be up on a projector, or would you sit down with them at a computer?
A Projector, conference room.
Q I know there's a theater set up in Houston. This was just a typical conference room?

A Yes, more round table like this with a screen that drops down.
MR. KELTNER: Okay. Since we're there, I'm going to hand you another document that I'm marking as Exhibit 13.
(SEC Exhibit No. 13 was marked for identification.)
BY MR. KELTNER:
Q Again, it's another document that we received in your production. Can you tell me what Exhibit 13 is?
A This looks to be the entire presentation we were speaking of that was presented in Antigua to visiting clients

prospects.

Q Okay. So who gives the bulk of this presentation? Is that the president of the bank?

A Yes, Juan Rodriguez.

Q So Juan gives the general presentation and then you would take over and do kind of your section on the role on the investment piece?

A Yes.

MR. KING: Was this presentation also given to prospective financial advisors?

THE WITNESS: Yes.

MR. KELTNER: Just one thing I wanted to point out real quick. There's a page entitled management team at SIBL headquarters, St. John's, Antigua?

THE WITNESS: Hm-hmm.

BY MR. KELTNER:

Q And it's got you listed there? I apologize the page numbers didn't print on this; maybe that page. It's the management team at SIBL headquarters, and you see your name in the middle of the page?

A And it looks to be a typo, "CIO?"

Q I assume CIO is chief investment officer?

A Yes.

Q Okay. And do you think that was a typo?

A Yes. It's probably an old version.

Q Okay, and it looks like the last four slides on the page per your presentation. Correct, where it says investment portfolio and strategy?

A Yes.

Q And there's essentially the same pages from Exhibit 12?

A Yes, it just looks like a different format, rough, but yes.

Q There's a page in there entitled management support and it references portfolio management out of Memphis, Tennessee. What was the explanation that was given to investors and how was that explained? You know, where the money is managed, who does it.

A I recollect that's where I was introduced on the management side, portfolio management side, and Memphis was introduced as the support to help monitor the portfolio and oversee the process. And then, of course, Jim Davis and his group and Laura Pendergest were on the investment committee of the board.

MR. KELTNER: Anything else?

BY MR. KING:

Q Look at the slide. I apologize again there's no page numbers. Entitled, "Anti-money laundering."

A Towards the back?

Q Yes.

A I got it.

Q Tell me about that.

A Juan used to talk about some of the anti-money laundering laws of Antigua. His prevention act was in 1996 how Antigua was ahead of the curve. They actually have a much more stringent anti-money policies than even the U.S. I guess it goes through these amendments, and then kind of

spoke at length on some of the checks and balances at the bank. You know, to even open an account there, multiple forms of I.D., bank reference letters, and it's another concern of clients, you know, who else is invested here at this bank. So to just really hammer home the point, just how astringent it is in Antigua.

Q So other than multiple forms of I.D. and letters of reference from the bank or another bank, were there any other checks and balances relating to the money order?

A Yeah, they did. I guess I'm out of turn talking about it, but I know they used various external sources to verify people.

Q Do you know who they were?

A I don't. I know Alan Burr is one. I don't think that was a regular firm. They might be one they call under extraordinary circumstances if somebody's suspicious.

Q During their time in Antigua, did you ever encounter any money laundering concerns?

A No.

Q Did you discuss with Juan Rodriguez any money laundering concerns?

A No. I mean he would mention anecdotally that people have been turned down by the bank and then he's maybe they've issued like a handful of SAR reports annually, every year, but.

Q Do you know if anyone was turned down during your time in Antigua?

A I think so.

Q And how do you know that?

A Just probably in these presentations and client meetings, them talking about it.

Q Who's in charge of money laundering program at the bank?

A The chief compliance officer was Pedro Gonzalez, I want to say. I'm sorry I can't remember his last name. So there was a compliance team in place. Ultimately Juan is accountable and responsible as the president.

Q How many people were on the money laundering team?

A There was just a handful. I mean it was just all the compliance team.

Q How many compliance people are in Antigua?

A There was three in the bank.

Q Do you know who the three people are?

A Yeah. I know Pedro. I'm saying it was either Rodriguez or Gonzalez. I should know. I played golf with the guy all the time, and then Sean Smith. And then they had I think an assistant. And that's just to comply. I mean they're still screening, I know, at account services when the accounts come in.

So, again, I can't speak specifically to the process, but a new account comes in, it's reviewed by the account service person. Then it kind of goes up to the clients and they review it, everyone making sure all documents are in place.

Q The potential investors that made the trip to Antigua, were they all U.S. residents?

A No. No, they were from all over the world.

Q Was the presentation any different for U.S. residents as opposed to foreign nationals?

A Juan did it in Spanish frequently. I always did mine in English. A few times he translated for me when the English was just that poor. But, you know, they were from everywhere.

Q In meeting any of these investors did you ever have any money laundering concerns?

A No.

Q You never had anybody come in 19 years old and was looking to invest $20 million or something?

A No.

Q You mean just kind of the obvious kind?

A Yeah, just kind of.

BY MR. KELTNER:

Q How big was the biggest CD sale that you all were involved with?

A I don't know. Oh, like just during this?

Q Yeah, just the name of the potential investor. I assume the biggest ones would stand out in your mind.

A Well, you know, actually not. There were so many, and I didn't really follow-up. It wasn't like, you know, ringing a bell. Hey, we closed this one. You know, 10, 20 million I had to guess.

Q Were those individuals, or were they through

entities?

A Almost always individuals.

Q One of the questions that was in Exhibit 11 was why Antigua. It's question 63. What was the explanation for why the bank is in Antigua?

A You know, I heard. I think we talked about this a little this morning that Allen Stanford had been doing some real estate, kind of retyped fund structures in the '70s, '80s, doing a lot of development of land in the Caribbean basin, that he did a lot originally in the Danish Islands, Aruba.

And he made some substantial money on these clients and the clients were like, you know, what can we do next. So he wanted to create a vehicle for them and invest money further into other products, so he started this bank in Montserrat. And as far as I know, it was the same model from day one.

Q What's the story with why the bank in Montserrat moved to Antigua?

A I know, but I can't remember. I know there was a volcano. You know, I think some banks started to blow up in Montserrat, which is never good for anyone from a headline kind of standpoint, so I think they wanted to go to a more sound government structure. Because you could be doing the right thing all day long, but if you're neighbors, harboring illicit funds and what not, it makes everyone look bad. So poor oversight.

Q I know this is on the list from the Role Play. Did you ever get that question from investors, you know, why are

you guys in Antigua. What's the benefit or anything like that?

A You know, in the sense from the low tax jurisdiction is beneficial to the point still that Allen was, you know. He's been down there almost his whole life, you know, in the Caribbean.

Q Okay. Did you ever hear anything about any regulatory problems in Montserrat or Stanford?

A No, I did not.

MR. KING: I heard the opposite, and I heard the regulatory was too lax there.

MR. KELTNER: Did you ever hear anything like the banks in Montserrat were being told to close down?

THE WITNESS: I have not heard that.

BY MR. KING:

Q Your presentation to your prospective clients where you were asked to put out SEC regulation of a bank or other U.S. regulators?

A It came up in the sense that how the CD was distributed in the U.S. I guess it's a private placement, a Reg D, so it was under the SEC's jurisdiction on the sales side of the CD in the U.S. But any questions about those agencies having oversight over the bank was more or less deferred to the FSRC or any of the Caribbean oversight authorities had jurisdiction over the bank.

Q What specifically was said about SEC or U.S. regulators jurisdiction with regard to Stanford Company's sale of the CD?

A If memory serves me, it will come up in the question of what U.S. agencies have anything to do with this or do they. I think that would put at least a U.S. investor at ease. It's kind of the same. Well, it's sold in the U.S., so it's how it's sold, like I just said. The clients responsible for income, so the IRS, they certainly have to report their income earned to the IRS.

BY MR. KELTNER:

Q So was it that the SEC might not have oversight of the bank and its products, but it did have oversight of the sales process?

A Yes.

Q That was the message?

A That's what I would have said.

MR. KING: Was that intended to provide prospective investors with an additional level of security?

THE WITNESS: As I said earlier, I'd want to steer away from any feeling of this thing is insured, protected, because it's not.

BY MR. KELTNER:

Q Just the idea that there was some oversight around the sale, I mean, was that to make U.S. customers more comfortable?

A I can't say. I mean, I would think just to answer the question, but to the client, I would just answer the question if they asked it.

Q Who told you that there was SEC oversight on the sales side?

A I think I just knew it, even well before I got there, of the CD program. And it was first rolled out when I was in Denver, you know. What's this company? Because no one even knew about it, and Jane Bates and maybe someone else, Juan, maybe. Yeah, Juan did. He came up in like '99 to Denver to sell, promote it to the FAs up there.

Q And that's the context in which you learned about there being a Regulation D private placement?

A Yes.

BY MR. EDMUNDSON:

Q Do you recall any discussions as to whether or not a bank had to register as an investment company to sell products in the United States?

A I do not. You know, I don't know how long it was sold in the U.S. I know around this time it was more or less being actively promoted. And maybe that's when the filings all came about.

Q I want to make sure I understand your previous answer. With respect to the Reg D clients, you understood that the bank CDs were not registered with in the United States, but the sales process was subject to oversight and regulation by the Securities and Exchange Commission. Is that fair?

A Yes.

Q Do you recall giving that explanation to investors if you were asked?

A Yes, I mean, that's what I would have answered.

Q I want to be a little bit more specific. It's what you would have answered. My question is were you asked that

Zarich_Michael_20090204.txt

question and did you give substance to that answer?

A I don't remember specifically. I'm sure I was asked a question.

MR. KELTNER: And that's how you would have answered it?

THE WITNESS: Yeah, it's a private placement, Reg D. Credited investor, you know.

BY MR. EDMUNDSON:

Q Do you feel fairly confident that you were asked that question?

A Yes.

Q Were you asked that or a similar question by the financial advisors when they came down in connection with their due diligence or learning about the bank?

A No.

Q Do you recall any internal discussions with any bank employees about the sales process under the Reg D filing?

A I don't recollect.

BY MR. KELTNER:

Q Do you believe the SEC has jurisdiction over the sales process for the sale of CDs pursuant to the Reg D product?

A Yes. Am I wrong? That's what I thought. That's what I was told.

Q Okay. And you were never told otherwise? You weren't told that the SEC has no jurisdiction over the CD sales?

A No.

Zarich_Michael_20090204.txt

Q Let me back up. A minute ago you told us that generally your answer to that question, which you're fairly certain you would have been asked would have been that there is SEC oversight over the Reg D private placement of the CDs. Is that fair?

A Yes.

Q Okay. And so you certainly wouldn't have given the client inaccurate information about that. Right?

A Only if I did. I said, was it inaccurate, and I didn't know it.

Q So did anyone from Stanford ever tell you that the SEC did not have jurisdiction over the sale of the CDs?

A No. And I want to also clarify, I just was not a part of the operational side. That question just didn't really come up.

Q Aside from the client?

A Well, at the bank it might have come up, you know, with Juan in the room or with an advisor, but most of them were already educated somewhere along the line.

MR. KELTNER: Sure. Okay. We may play a little bit of the game of what is this just on some documents. Can you identify them for the record?

THE WITNESS: Oh, okay.

MR. KELTNER: I'm going to hand you a document that's marked as Exhibit 13. This one doesn't have a title, but it starts with a question number 67 that says, "Do you have a feel for the overall position in each sector?" This is a continuation of one of the previous exhibits of the Role

Zarich_Michael_20090204.txt

Play Q and A. Let's find out which one. Whichever one ends on question 66. I think you noticed that earlier.

MR. KING: It's Exhibit 11.

MR. KELTNER: Yeah, it's the questions from Role Play. So, 14. Okay.

(SEC Exhibit No. 14 was marked for identification.)

BY MR. KELTNER:

Q Okay. So you think Exhibit 14 is a continuation of Role Play document Exhibit 11? The numbers line up. It's 66 and 67.

A Oh, yes.

Q So your answers with regard to how that document was prepared and the circumstances around it would be the same?

A Yes.

Q I think most of these are repetitive of prior questions that we talked about in different Q and A documents. There's was a question 85 that says "Are most of the investments in stocks and bonds?" "Yes." And that's consistent with your understanding when you were at Stanford?

A Yes.

Q Okay. Consistent with what investors would have been told?

A Of the asset side? Yes.

Q Okay. There's question 101. I don't think we've gone through this in explicit detail, but says, "Is SIBL very different from a commercial bank?" Yes. Again, we've talked about loans, generally, but loans made up a very small piece of Stanford's product mix or asset side of the balance sheet. Is that correct?

A Yes.

Q And as I understand it, the majority of all the loans that were made were secured by CDs?

A Yes, that was my understanding as well.

Q Okay. So you couldn't just walk in off the street and get a loan unless you were a CD client?

A Yes.

Q Okay. And I think even then, the loans were limited to some percentage of your CD balance?

A I think it was 80 or is 80 percent.

Q Okay. What about other conventional bank activities? When I think of a bank, you know. I assume, you couldn't get a car loan from Stanford?

A No car loans.

Q Okay. What about credit cards? Maybe, maybe not?

A I don't know if they had a credit card. They might have had a credit card for some kind of sweep accounts or something, but no car loans, mortgages.

Q Okay. ATM accounts?

A No ATM.

BY MR. EDMUNDSON:

Q Did the bank even have a walk-up facility?

A No.

BY MR. KELTNER:

Q I guess a prospective customer, could they even show up at the bank unannounced?

A Only, I mean, it's happened with maybe someone on vacation, stopping by, but I don't believe it's ever happened.

Q Okay. So a true private bank so to speak?

A Yes.

BY MR. EDMUNDSON:

Q But the bank's assets in your view managed from Memphis?

A I'm sorry. Managed banks assets--?

Q Managed the bank's assets from Memphis?

A The direction of the asset management is wherever Jim and Allen are. And just for semantics, managed, they're not Jim and Allen, as far as I know, aren't buying and selling securities all day long. They're directing where the money goes.

Q Where does Him Davis work?

A He used to work in Memphis. I think now, maybe, he's in Tupelo.

BY MR. KELTNER:

Q Mississippi?

A Yes.

BY MR. EDMUNDSON:

Q While you were the senior investment officer, in your view, did Jim Davis call the shots with respect to the assets of the bank?

A Yes.

Q Did he work in Memphis at the time? Or do you think he may have worked in Tupelo at the time?

A That's current. He worked at Memphis while I was there.

Q At the time you were employed there, he worked in Memphis?

A Yes.

Q And Laura reported to him. Is that fair?

A Yes.

BY MR. KING:

Q What do people do where the tier III assets are invested?

A I mean I know Jim and Allen, and that's all I know.

Q How do you know that?

A I don't. I don't.

BY MR. KELTNER:

Q And why do you leave Laura off that list?

A I'm not sure she was privy to it. And I could be wrong. She might be. We just never talked tier III.

Q Is that based on conversations you had with Laura?

A Yes, from the training.

BY MR. EDMUNDSON:

Q Mr. Zarich, with respect to tier III bulk of the assets at the bank, you don't know who knows where those assets were?

A Correct.

Q And in any client presentation that you ever participated in, did you tell respective clients that you as

a senior investment officer didn't know where a vast majority of the assets were located?

A I did not tell the client that.

Q Did you inform the clients that you didn't even know what the vast majority of the assets were?

A No.

Q Did you inform the financial advisors that you as the senior investment officer did not know how the vast majority of the bank's assets were invested?

A I did not. Again, I only presented the big picture.

Q Okay. And in those presentations you did not distinguish between the tiers that you testified previously about?

A Correct.

BY MR. KELTNER:

Q Just to close that loop out, with respect to each of the disclosures that Mr. Edmundson just referenced, did the bank president make any of those disclosures?

A No.

Q And it was you and he were the primary presenters in the presentations in Antigua?

A Yes.

Q And typically you two were the last people the investors talked to before they made their investment decision?

A No, they did a tour of the bank. They did usually activities during the day, but they were mostly accompanied by their financial advisor.

Q Was the visit to Antigua typically the last step in the purchase process?
A Yes.
BY MR. EDMUNDSON:
Q How often did Allen Stanford visit the bank in Antigua?
A Rarely.
Q In the year and a half that you were there, how often do you think you saw him?
A Inside the building? I mean he was on the island a lot, but in the building.
Q In the year and a half you were there, how often do you believe you saw Mr. Stanford on-site conducting business?
A In the bank, five, six times.

Q A handful?
A Yeah, a handful.
Q How often did you see Jim Davis physically at the bank?
A A little more frequently, probably about once or twice a quarter.
Q Did you ever have any discussions with Mr. Stanford about the bank's assets?
A No.
BY MR. KELTNER:
Q Would your answer be the same for Mr. Davis?
A Yes.
Q Okay. So no detailed conversations with Mr. Davis about the bank's assets?

A Correct.
Q Okay. Certainly no discussions about tier III?
A Correct.
BY MR. EDMUNDSON:
Q Let me make sure I understand. You took trips with Mr. Davis and Mr. Pendergest to Europe. Did you not?
A Yes.
Q And in those discussions you had some conversation about bank assets. Did you not?
A Yes. Jim is not. I mean he's a very conceptual, philosophical, so he would talk about the history of Stanford and how this works and the nuts and bolts of the manager or a hedge fund.
Q So the details how the assets were actually invested. Those types of discussions you didn't have with Mr. Davis?
A No.
BY MR. KELTNER:
Q And, in fact, when he talked to the financial advisors, you were asked to the leave the room, about the details of the investment?
A Yes.
BY MR. KING:
Q I just have one last thing on this. While you were in Antigua as a senior investment officer, what was your understanding of who you knew were the tier III assets were invested?
A Jim and Allen.
BY MR. EDMUNDSON:

Q What is the basis of your understanding?
A That's what I was told.
Q By whom?
A Laura.
BY MR. KELTNER:
Q And so Laura in the course of these hours of preparation that you did, the training that you did before you went to Antigua, she never volunteered. Did she know where the tier III money was?
A Correct, yes. She never volunteered. I don't know if she knows.
BY MR. KING:
Q Were investors told that Robert Allen Stanford and Jim Davis were the only people who knew where the tier III assets we were investing?
A Not that I know of.
BY MR. EDMUNDSON:
Q Did you have reason to tell prospective clients that Mr. Stanford was the sole shareholder of the bank?
A I'm sorry. I did, yes.
Q You did?
A Yes.
Q Did you mention to them that Mr. Stanford did not routinely take profits out of the bank?
A Yes.
Q That was part of the presentation?
A I guess that sound byte, I obviously don't know for a fact but that's what I've been told, yes.

(SEC Exhibit No. 15 was marked for identification.)
MR. KELTNER: Just kind of closing out the loop on some of the Antigua documents, I'm going to hand you a document that I've marked as Exhibit 15. It's entitled, "Stanford International Bank, Limited." The first sentence talks about a visit to SIBL and STCL, the client.
(The witness examined the document.)
BY MR. KELTNER:
Q And the second page is entitled, "Visit request, SIBL guidelines, October 2004."
A Yes.
Q Can you tell me what Exhibit 15 is?
A This looks to be the protocol for requesting trips to the bank to financial advisors for bringing client prospects to the bank.
Q Okay. So would this be a document that would be given to the financial advisors so they know what the rules of radar, what kind of a protocol?
A Yes.
Q Is the primary qualification for a visit to the bank $5 million?
A Yes.
Q So either a current client with $5 million in CDs or a prospective client looking to invest $5 million?
A Yes.
Q So those are one of two ways to get your free trip to Antigua?
A Yes, I believe it was paid for by Stanford.

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

A They would do like lunch at the Sticky Wicket, typically, after the presentation in the morning. And then I think it varies. Some people want to golf and snorkel, and they would do like a tour of the island and then go back to their hotels and do the other restaurant, the five star restaurant. The Pavilion would be kind of the final night and Juan and I would be at that dinner, kind of under any other questions. And it was almost always social at that point.
MR. KING: Was that a common practice or commercial practice as you know in terms of selling CDs in the United States?
THE WITNESS: I don't think so. But I don't know for sure.
BY MR. KELTNER:
Q So typically with these folks flying in on a weekend, or would they fly in during the week?
A Week day.
Q How long were they usually there?
A I think two nights.
Q Okay, so they would get their tour, and wining and dining, and maybe the following day would they have their meetings at the bank?
A Get in usually in the afternoon, kind of go down, get checked in. I think they're kind of on their own that first night. Business at the bank, dressed in a suit and tie, dressed up, come into the bank, presentation, lunch at the Sticky Wicket and then the island tour and dinner at the Pavilion and then out. So it's two nights; out like on a

Wednesday -- in on a Monday afternoon, out on a Wednesday.
Q Okay, and again the primary hosts were you and the bank president?
A At the dinner at the Pavilion after that night of the presentation.
Q Okay, and I assume there was staff to do the tours and all those types of things?
A Yes, Sasha and Natasha.
BY MR. KING:
Q Do you know Jane Vance?
A Yes.
Q Who is she?
A She was chief compliance officer over the registered investment advisor at the Group, the R.A.
BY MR. EDMUNDSON:
Q Did you meet with her in Antigua?
A Yes.
Q Approximately how many times?
A Actually, my first trip there was with Jane. Jane used to go down with, I guess, new FAs for educational part of their education at the bank.
Q While you were employed at the bank in Antigua, approximately how many times did you observe Jane going down?
A A couple.
Q Did she make due diligence trips?
A Yes.
Q Do you have an understanding of what the nature of the due diligence trip was?

A I do. I can say she used to take the financial advisors, and then Eddie Rollins started taking recruits down there. And the financial advisors, as he took over the broker-dealer, she took a group down that were more culprit people as due diligence from Stanford Capital Management.
Q In connection with her due diligence trip, did you meet with her in connection with her due diligence?
A At the bank?
Q Yeah.
A Just in the presentation format, I don't think; or at a dinner.
Q Do you know whether Ms. Bates asked to review the assets of the bank?
A She never asked me.
Q Do you know whether or not she asked to meet with the auditors?
A I don't know.
Q Do you know whether or not she ever asked to meet with the regulators?
A I don't know.
Q Do you know whether or not she was denied access to information about the bank assets?
A That wouldn't surprise me, but I don't know if she asked or was denied.
Q And do you know whether not she was denied access to the auditor or to the regulators in connection with her due diligence at the bank?
A I don't know.
Q And I take it from your answers throughout the day

that you certainly did not walk her through the bank assets while she was now on-site?

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

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

A Yes. Or correct.

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

A Correct.

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

A Yes. Rhonda Leer. That might have been the same trip. Rhonda Leer, who is now the compliance officer over Stanford Capital Management. She is down there at the bank.

Q Anybody else?

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

MR. KELTNER: The guy from the NASD?

MR. EDMUNDSON: Bernie Young.

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

THE WITNESS: Yes.

BY MR. EDMUNDSON:

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

with them about the overall assets at the bank?

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

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

A Not to my knowledge; they were not.

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

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

Q Is it your understanding that he would do that, become more familiar with a company or to discharge his responsibilities as a compliance officer?

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

BY MR. KELTNER:

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

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

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

Q Yeah, but it looks fairly official.

A It's probably the training manual.

Q Okay. And that manual is used toe train financial advisors?

A Yes, sales assistants, financial advisors. If it's what I think it is, it's more kind of like what the products are. Yes, a little background on the bank and things like that.

Q And who is this gentleman that gave the presentation?

A Oreste, O-r-e-s-t-e; Tonarelli, T as in Tom, o-n-a-r-e-l-l-i.

Q And who is he? Where does he fit in?

A He's a long-time advisor. He's been selling the bank from the beginning of the 80s and somewhere along the line took up training. And he at one time, I think had -- it was standard for all the new employees to go down there -- nobody is selling it to his training facility in Miami and he would do like a two-day beat-down on the bank.

Q Okay. So he was a financial advisor out of the Miami office?

A Yes.

Q And, I guess, was he one of the leading sales guys? Is that why he was in this role?

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

just been around one of the first sales guys.

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

A Yes.

Q And he would provide them with this information at a high level and tell them what the CD is, how to sell it by company.

A Yes.

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

A I did not.

Q How is it that you know about this?

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

Q Okay. So you talked to him and you knew that's generally what he did and what his role was?

A Yes.

Q Let's talk a few minutes about and in a little more detail about the portfolio tracking. You know, we talked earlier today about how you got weekly reports?

A Yes.

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

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

MR. KELTNER: The entire document is about 514 pages, so what I did was I took basically the first three pages from each tab. So the first page appears to be a summary page entitled, "Stanford International Bank Weekly Statement for March 15, 2004."

There's some more detail in that summary, and then it looks like there are also summaries for subsequent periods, March 8, 2004. Then there's what appear to be pie charts, and then eventually you're searching tabs for each investment advisor or at least what I believe to be each investment advisor. So I'm going to hand you Exhibit 16 and if you can confirm for me what that is.

THE WITNESS: This is of course before I was SIO, but this is similar to what I would have received as my weekly report you spoke of on tier II assets.

BY MR. KELTNER:

Q Okay. So this first page that's entitled "Weekly Statement for March 15, '04," this appears to be a roll-up of all the assets that are on the tabs that follow. Is that generally what this is?

A Yes.

Q Okay. And just so I'm on the same page in understanding this, if you go to the right-hand side of the page where you see current balance, kind of in the middle of the page by itself, that 154 million 362 some odd thousand. That's the sum total of the tier II assets as of this March

Zarich_Michael_20090204.txt

15, 2004.

Q That's my understanding as well, and that's consistent with what your understanding was when you were at Stanford in terms of the size of the portfolio. And before did you tell me it ranged from what, 200 to 500 of the tier II assets?

A You asked about tier I. Tier II, you know, we've got 2, 300 when I was there.

Q Okay. Certainly not in the billions?

A Certainly not.

Q So again, this first page appears to be a roll-up of the subsequent pages. If you look through, I want to go through some of the sub advisors with you real quickly, so go to the first page that says "Credit Suisse."

A Yes.

Q Okay. So Credit Suisse, First Boston CSFB, so is this an advisor that you are familiar with?

A Yes.

Q Okay. Is this one of the ones you met with?

A Yes.

Q Okay. And where did you meet with them?

A London.

Q Okay. And so do you know who the London contact was?

A I do. Ziad, Z-i-a-d; Jiryes, J-i-r-y-e-s; Ziad Jiryes.

Q And was the actual, I guess, senior advisor on the account?

A There was a team. There were others. He came to

Zarich_Michael_20090204.txt

Antigua as well, and I don't recollect -- Abbot, maybe -- Mark Abbot?

Q In speaking with Ziad, was he actually managing the money or was he a relationship guy? But you don't know how he spoke. Could you tell?

A Yeah, this team, just to say him, he would allocate the money out to undermine managers.

Q Okay. And so looking at the following page, there's a CSFB Credit Suisse, First Boston, Brandeis; and, the prior page is Credit Suisse, First Boston Equity. What's the distinction there?

A Brandeis is a money manager. Equity, I would think might be individual positions.

Q And again, I just printed the first page for me. I mean, is it your recollection you could look at some of the detail and see kind of categories of investment and things like that?

A Yes, just kind of from a broad equity fixed-income.

Q What is Brandeis, did you say? They're a money manager?

A An international money manager, I think they're in Chicago, but it's also sold in Europe too.

Q Okay. So this is an example of the bank, Credit Suisse, taking whatever from Stanford, and here's some to Brandeis. Here's some to you. So CSFB is kind of allocating the fund out to subdivisors?

A Yes, and Ziad would go, I really like these Brandeis guys. You should put money with them. So he had

Zarich_Michael_20090204.txt

some discretion. Brandeis is a money manager that's actually investing in securities if that makes sense.

Q Sure. So CSFB, they're getting a cut for advising the bank on which funds they should be in, with which asset?

A Okay.

Q So is that similar to a fund-to-funds where, you know, CSFB is getting their whatever, their management fee. Do they also get a percentage of the Ops?

A Oh, I don't think so, but I don't know. Their performance fee, yes, it's almost a fund to funds.

Q It's a fund to fund to fund? Is that what you're saying?

A Yes.

Q Okay. I guess quickly looking at the CSFD equity page, do you see the pie chart on the right-hand side?

A Yes.

Q So is this representing that this money is in 40 percent equities and 60 percent cash? Am I reading it right?

A Yes.

Q And then on the following pages, Brandeis, it looks like it's three percent cash and 97 percent diversified investments. What is that?

A Brandeis would typically have/hold 50 stocks, international companies.

Q Okay. Why wouldn't that be in the equities bucket? Is that different?

A That's why I think Brandeis is a diversified fund, is a fund. I think the equities are actual individual positions.

Q Okay, so the diversified funds, for lack of a better assertion?
A It's a fund, mutual fund.
Q Okay. Like Magellan, or whatever?
A Yeah, and that's how they're sold in Europe. They don't really do separate accounts like we do here in the states.
Q Okay, and then I guess the following page, that's CSFB bonds?
A Yes.
Q So are these bonds? It doesn't look like there's a sub advisor here.
A These are individual bonds.
Q That CSFB has selected?
A Yes.
Q Okay, so looking at the pie chart here, it's 72 percent fixed income, nine percent cash, and 19 percent diversified?
A It's probably a fund.
Q A fund of bonds, essentially?
A Yeah, yep.
Q Okay, and then going to the next page, Lehman 143. Are you familiar with that advisor?
A I'm familiar with Lehman, but I don't know if 143 is.
Q Sure. Did you meet with the team from Lehman?
A This could be a trading account. No. I did not.
Q Okay. Do you know where they were located?

A I don't. Let's just go ahead and do this, kind of going through quickly.
Q T.D. Private asset management. Did you meet with that group?
A Yes. Toronto Dominion in Toronto?
Q Okay. And do you know who the advisor was for that account?
A I don't remember.
Q What city was the office in?
A Toronto; they managed individual equities.
Q The following page, Coutts Bank, Switzerland -- and that's C-o-u-t-t-s -- did you meet with that group?
A Yes.
Q Okay. Where did you meet with the Coutts Bank team?
A Geneva.
Q And who were the advisors on that account?
A Peter Brooks. This is the July report.
Q And he was in Switzerland?
A Yes.
Q Okay, and did he travel Antigua?
A He did. He did.
Q Did anybody else from that team you can recall?
A I don't. He had a partner, but I don't recollect.
Q Okay. The following page, "SG (CBG Compagnie) in care of Geneve," I'm guessing. We'll get you that spelling afterwards.
A It's a Soc Gen -- Societe Generale.
Q Okay, that's helpful. So did you meet with the

team from Soc Gen?
A I did.
Q Okay. And who's that?
A Blaise Friedli: B-l-a-i-s-e F-r-i-e-d-l-i.
Q And where did you meet with Mr. Friedli?
A Geneva.
Q And did he travel to Antigua?
A He did not while I was senior manager.
Q We'll just do the same thing on the next page, Medieval Int., S.A.
A Yes, met with them, Geneva. I think Rene Baumgardner.
Q Did you say guess?
A Yea, Baumgardner, B-a-u-m-g-e.
Q So the next page is Stanford Group, Casa de Valores.
A That is a Stanford affiliate in Quito, Ecuador.
Q Okay.
A I think they were just doing bonds. Yes, 74.
Q 74 percent fixed income, so is that going to be in Latin American bonds, probably?
A Yes.
Q Who ran that group or who are you associated with that group?
A Ulysses, U-l-y-s-s-e-s; Alvear, A-l-v-e-a-r.
Q Okay. Again, that's a Stanford affiliate?
A Yes.
Q What do they do aside from manage the spa fund?

A I think they're registered as a broker-dealer, and then also kind of an investment banking; and then their broker-dealer sells the CD. And, you know, all the registrations are different down there, but they're essentially a brokerage.
Q Okay. Just continue down the path. Axia, on the next page?
A Yes, Geneva, Switzerland.
Q Can you give me a name?
A I believe it's Steven Richards; and, again, part of the team.
Q He's the primary?
A I think he would be.
Q And did you live in Geneva?
A Yes, not Antigua.
Q Can we talk a little bit earlier about SSM Venture. Seeing this here, it looks like the position is around half a million; and, I think it's listed as 100 percent diversified investment.
A That's a fund. I mean, that tells me it's a fund. I think this is probably why it asks the question, who's SSM in my role plan. But I do not know who they are. They weren't in Europe; or at least I don't remember.
Q Okay. How about Meridian on the following page?
A I think Meridian is just an actual hedge fund.
Q Okay.
A Not a bank but just a hedge fund.
Q And do you know the manager for Meridian?
A No. But I want to differentiate not a bank, but an

actual fund. So this is an example of where the money just goes direct to the manager, the fund manager.
Q Directly to the hedge fund manager?
A Yes.
Q Just continuing, Barbary Coast, Rapier Partners, R-a-p-i-e-r?
A I don't know.
Q Banque Franck, B-a-n-q-u-e, F-r-a-n-c-k?
A Yeah, this is one of the meetings. I met the guy, I think, in a hotel. I don't remember his name, like a handshake, and I was excused and the meeting went on. So I didn't go to their office, and I don't remember his name. It's in Geneva.
Q Geneva?
A Yeah.
Q Okay. So were most of your meetings in Geneva and London then?
A Yes, and Zurich, but I don't know who we saw in Zurich.
Q And then RefCo?
A You know, I'm thinking RefCo and Lehman are custodians. I mean as the custodians, so this is probably some decisions that were at RefCo. I don't know who managed them. It could be the commodity positions.
MR. KELTNER: Okay.

Zarich_Michael_20090204.txt

BY MR. KING:
Q Mr. Zarich, when did you take over as senior investment officer?
A Officially it was January 1st of 2006.
Q How did Exhibit 16 come into your possession?
A Oh, what we're looking at, I'm thinking from the training. I mean, it's clearly dated.
BY MR. KELTNER:
Q So, I'm curious. Do you have any idea why they would have given you your own data?
A I don't know.
Q Okay.
A Unless -- I really don't know.
Q I mean, it doesn't seem inconsistent with them asking you to leave the room when they talk about live account data.
A But I think there's documents to show I did receive these legally, and I'll just get re-e-mails.
Q Okay.
A You know, it may coincide with the trip to Europe.
(SEC Exhibit No. 17 was marked for identification.)
MR. KELTNER: Let's think for a minute about some of these FSRC reports, where there's a document I'm looking at as Exhibit 17. So, generally, what's Exhibit 17 at a high level?
THE WITNESS: It's the FSRC quarterly report, Financial Services Regulatory Commission. It consists of asset information from the bank. I believe it has client

Zarich_Michael_20090204.txt

information as it deposit times, country of origin, types of CDs that are invested in. This report is what would be submitted quarterly to the regulatory body.
BY MR. KELTNER:
Q Okay. How does this report makes it way to the regulatory body?
A It's my impression that Juan Rodriguez kind of coordinates a quarterback's process, various departments, such as the investment team, which supply information on assets. I'm sure his operation team supplies information on the clients. Maybe there's a tier I cash. And then I believe he memorializes it and sends it to the FSRC, and then I receive a copy when it's all done from Moira.
Q Okay. Why do you get it?
A You know, again, for me I like to look at how we're allocated so I can speak intelligently on how much we have in equity, how much we have here and here.
Q Okay.
A And, I know, also the client information is helpful. Where are your clients from? You know, technical agents come up as well.
Q Okay. The data on investments that ends up in the FSRC report, did you play any role in pulling that together?
A I did a few that towards my last few quarters in Antigua, a substantial team would come from Memphis and look at all the statements for tier II, all the managers, and kind of reconcile everything into the spreadsheet, wait for Jim Davis to put tier III together, and that entire piece then

Zarich_Michael_20090204.txt

goes into this report.
Q Okay. So what do you get from Jim that shows you tier III?
A I get nothing, but what I think the analysts get, for Fred or Laura, is probably just the asset allocation, probably just equity funds, cash, whatever they ask for.
Q Okay. But you never see an e-mail or a document that comes from Jim Davis. You just know that you're waiting for Jim Davis to provide the information so you can finalize the report?
A Yes.
Q Okay. And why is it you assigned Jim to that as opposed to Laura? Had you heard that and you heard we're waiting for Jim to give us the--
A Oh, I've heard it, yes.
Q Okay. So that typically one of the last steps was getting the number from Jim Davis?
A Yes.
Q Okay. So were the tier II numbers already compiled by the time you got the tier III numbers?
A Yes, I think. I mean yes, I would say.
Q Okay, so the tier II numbers would have come from the Memphis team and would have been placed at the end of the report, and then you're just waiting for the tier III numbers?
A Yes.
Q And those would have come from Jim Davis?
A Yes. Sorry, yes.
Q And these quarterly reports, they were submitted as

part of the normal course of regulation from the FSRC? In other words, they weren't part of the special audit. It was regular quarterly reports?

A Yes.

Q And then at the end of '06, you know, was there annual audit in early '07?

A Yes.

Q Okay.

A That's a good question. I think that annual audit is more of a questionnaire. I mean it's still this, and I just think there's more information, more specific information leading up to an on-site examination.

Q I guess that may be an important distinction. I think in the Q and A I saw some reference to the FSRC doesn't audit, they examine?

A Yes.

Q Okay. What's that?

A I think that's just banking terminology. It's not an audit. It's an examination.

Q Okay. Why was that distinction important? Why did it find its way into the Q and A?

A Maybe just the vernacular of audits, kind of more negative, maybe. Or maybe it's because it is an examination, what they call it.

BY MR. EDMUNDSON:

Q What was the bank's relationship with FSRC?

A I think it's friendly, cordial. A lot of those guys have been there for a while.

Q On the FRSC side?

A Yes. We talked earlier. I believe Jim Davis met with them separate, outside the bank on the investment side. I mean maybe, maybe not.

Q Were these quarterly reports at the FSRC viewed by bank employees as a formality?

A Yes.

Q I suppose at some level it is a formality, but was it viewed as a rigorous exercise?

A I would say yes. The times I worked on the asset side it was tough going through, getting the positions, going through all the statements. I think they wanted it by country and currency. So, yeah, it took a good like eight of us a solid week to put that together.

Q Do you recall whether or not the FSRC ever had any follow-up questions to a quarterly report?

A I don't know of any.

BY MR. KELTNER:

Q And, excuse me. I think we talked about this a little before, but just to be sure I'm clear on it, did the FSRC ever receive or ask to receive the actual securities positions?

A Yeah, I don't know. They never asked me, and I'm not sure if they asked.

Q Okay. And as you told us, the tier III data that you provided was the high level allocations from your datas. Correct?

A No, he would have to submit something in this format, because that's what they requested.

Q Currency, country, as far as actual securities positions, did FSRC ever ask for or receive those?

A I don't know.

Q To your knowledge did they?

A To my knowledge I don't know.

Q But what?

MR. CRAINE: That was no.

(SEC Exhibit No. 18 was marked for identification.)

MR. KELTNER: Another FSRC outside exam related document, I'm handing you a document that I marked as Exhibit 18, and it says, "Financial Services Regulatory Commission On-site Examination," and it appears to be an outline, roman numerals on the left-hand side.

(The witness examined the document.)

BY MR. KELTNER:

Q Do you recognize Exhibit 18?

A This would be from the on-site examination. This is what they'd be requesting in advance. I think I probably took a summary from the questionnaire and put it into an outline.

Q Okay, so this is maybe something you compiled as a summary of what you needed to go get for the FSRC about it?

A Yes.

Q And would this be in connection with the '06 audit or exam?

A I think it was '07. '06, excuse me, '06.

Q Year-end '06 taking place in early '07?

A Yes.

MR. KELTNER: I'm handing you one more document related to this that I'm marking as Exhibit 19; and, I think it may be the document request that you referred to a minute ago that you may have summarized.

(SEC Exhibit No. 19 was marked for identification.)

THE WITNESS: Correct. This is a letter to the president, Juan Rodriguez, announcing the examination and what they were looking for. Juan would have given me my areas, and then I would have probably sent this to Laura and Jim in outline form.

BY MR. KELTNER:

Q Okay. The handwriting on the second page, the list of requested documentation and information. Is that your notation, or whose is that?

A That is not. I don't know if that's a priority, or, well I guess they're just numbered. That is not mine.

Q But you think this Exhibit 19 is likely what you were given by the bank president, and then you take it, summarize it, figure out what you needed, and forwarded those requests onto the team in Memphis?

A Yes, Laura, I would assume, this is Laura and Jim.

BY MR. EDMUNDSON:

Q I don't know that we've covered this, but was Laura a bank employee?

A No.

Q Was Jim Davis a bank employee?

A I mean, board of director, but I guess not.

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

of money was put into the bank, I should see it flowing through tier I, if I gained access to tier I?
A Oh, yes, fair to say.
MR. KELTNER: Real quickly, I'm going to hand you a document that I'm marking as Exhibit 20.
(SEC Exhibit No. 20 was marked for identification.)
BY MR. KELTNER:
Q Can you tell me what Exhibit 20 is?
A It's the Stanford International Bank Annual Report, although it's from 2006. By the way, that's Seth Hair. You haven't met him yet.
Q That's a picture of Seth on the inside cover?
A We talked about him Friday.
Q Okay. I think we saw a picture of you in '05? Is that correct?
A This one?
Q Yeah.
A Yeah, I was in there.
Q Yeah, I don't think we've got a lot of time to get through this in detail, but if you go to page 36?
A Yeah.
Q This note 12 on page 36, "Financial Assets at Fair Value," I take it that represents the investment portfolio for Stanford International Bank?

A Correct.
Q So the break-out here: equity, fixed-income, fiduciary alternatives, precious metals; so these are the asset classes that the bank was at at year-end 2006?

A Yes.
Q Okay. What was equity? I just want to make sure we're all on the same page.
A Stocks.
Q Okay.
A So securities and equities securities in the company.
Q Okay. And so there's not going to be, you know, marketable, trading securities like securities in a public company?
A Yes.
Q Okay. So if you've got hedge funds or private equity funds, is that going to fall in the alternative category?
A Yes.
Q Okay. So you see alternative of what, 317 million, roughly?
A Yes.
Q At year-end '06. And that's where you would find all the hedge fund and private equity investments?
A Correct.

Q Okay, so equities are what they say they are, right? I mean it's the common use of the term, "stock," in a public company?
A Yes. Yes.
Q Okay. One of the things we were a little confused by is in the pie chart below or in this case a circle chart. Do you see the equity at 57.4 percent?

A Hm-hmm.
Q In the income chart that's very similar to this, a few pages ahead, they call it equities versus equity, and we just want to make sure there wasn't any distinction. It didn't seem like there should be, but I don't know if there was any significance.
A No. I don't think so.
MR. CRAINE: Hey, Tom, I can't let you go further. I'm going to have to object. Do you think you can lay a foundation to this document?
MR. KELTNER: Okay. Obviously, you told us this is a copy of the Stanford International Bank 2006 annual report. correct?
THE WITNESS: Yes.
BY MR. KELTNER:
Q Okay. And I think we found a copy of perhaps this year or maybe some other years in the stuff you produced to us?

A Ah-hah.
Q How would you receive a copy of the annual report?
A Well, bound copy; that would probably be the first one. And then I think it's on the bank's site.
Q Okay. Who prepares the annual report? Who internally does?
A Prepares the financials?
Q Yes.
A I mean it's the same kind as the FSRC with the investment side, Jim, Laura, probably in conjunction with Gil Lopez from Stanford Financial Group accounting.

Q Where is Gil Lopez out of?
A He is in Houston.
Q He's in Houston?
A Yes.
Q And is he an employee of Stanford Financial Group?
A Yes.
Q Okay, and as far as you know, is he still at Stanford?
A Yes.
MR. KING: What was your role in preparing annual reports?
THE WITNESS: None.
BY MR. KELTNER:
Q Okay. How do you know what the process was? Was there, you know, was there a working group? Were there e-mails that went out? It's time to prepare the annual report, things like that?
A I vaguely remember. It's a topic, but I don't remember specifics.
Q But is it fair to say the only people with access to the information necessarily to compile the annual report, and particularly on the asset side or the team in Memphis, Jim Davis and Mr. Stanford?
A Right, and you would probably get treasury in there and then accounting, because when you get into the management fees, Tracy and all those, would be done out of Houston. And I also worked with Gil Lopez's Mark Khurdt. I know he worked in -- K-h-u-r-d-t, I think -- he worked under, or still does

maybe, under Gil Lopez. I don't know why I know that they're involved as they were, but I think it makes sense, because they were the accountants for the whole firm.
Q Okay. For Stanford Financial Group globally?
A Yeah.
Q Who did they work for?
A Jim.
Q Okay. Was there an entity they worked for? Do you know?
A Stanford Financial Group. Is that what you mean?
Q Yeah.
A Yeah.
BY MR. KING:
Q So how do you know, looking at page 36 of Exhibit 20 that equity there means stock?
A I mean I don't know, because I don't know for sure.
Q That's what it means to--
A That's what it means to be in--
Q Say that again for Terry. So that on what basis are you testifying that equity means stock on page 36 of Exhibit 20?
A My knowledge of the business.
MR. KELTNER: So common sense to a degree?
THE WITNESS: Yes.
BY MR. KELTNER:
Q Were references in the Q and A documents to pie charts? Yeah, I think there was one saying, you know, I'm having trouble reconciling the pie chart to something or other. The pie charts that were referenced in the Q and A,

are those the pie charts that end up in the quarterly reports and the annual report?
A Yes.
Q Okay, so the information that was given to prospective CD purchasers and CD clients, that would have come from the quarterly and annual reports, most likely?
A Yes.
BY MR. EDMUNDSON:
Q What is real estate holdings in that pie chart?
A Some would say alternatives. You mean as in those REITs and stuff? Probably alternatives. I think it should be its own asset class. You mean hard real estate, like a piece of property?
Q Yeah, hard real estate, not a securities investment; hard real estate that would fit within that criteria.
A Are you asking where I think it should be? Because I don't think they own any hard real estate, but if they did own actual real estate, I would guess they'd have it in as alternatives.
Q Your understanding is the bank's portfolio and assets did not include purchasing?
A That's correct.
Q Can you tell me what kind of real estate holdings Mr. Stanford had on the island of Antigua while you were down there?
A I believe he owns all his buildings, the bank. He's got a publishing, printing, newspaper. He owns cricket

grounds, bleachers, two restaurants, an athletic club. I know he owns an island called Maiden Island off of Antigua, and he might have some other raw land holdings on the island.
Q So is the personal residence there?
A Yes.
Q Does Mr. Davis have a personal residence there?
A He did, yes.
Q Does Ms. Pendergest have a personal residence there?
A No. Jim's maybe Allen's. I know he had a house. I don't know if he actually owned it. It could be. I mean I lived in one of probably two dozen houses he owns.
Q He being Allen?
A Yeah. Or is company.
Q My question related to Allen. My question now relates to the bank. Do you know of the bank's real estate holdings in Antigua?
A I don't know.
Q Do you know who owns the bank building. You think that's Mr. Stanford?
A Yes.
Q Do you know that with certainty?
A No.
Q Do you know whether or not the bank owns any other real estate holdings outside of Antigua?
A I don't know.
Q Did tier II perform while you were a senior investment officer?
A Low teens, low to mid-teens. I don't remember. I

don't recollect.

Q How did that compare to the overall return on investment for the bank's portfolio?

A I think stated returns '06 were slightly under 11 percent of the annual return, and I don't know about '07.

Q So at least your time in Antigua, tier II out performs tier III?

A Yes, I believe so; well, only because of the final number. It's only a weighted average of a small sliver of the while thing. And it wasn't an unbelievable return. I guess it was 10-1/2 or something, and a decent market. It wasn't 15.71.

MR. CRAINE: You've got about 20 more minutes. Let's stick to the questions.

MR. KELTNER: I just want to identify a couple of things that were in your production.

(SEC Exhibit No. 21 was marked for identification.)

BY MR. KELTNER:

Q Can you tell me what Exhibit 21 is?

A That's my resume.

Q Okay. Did you prepare Exhibit 21?

A Yes.

Q Okay. And you produced it to us as part of your production?

A Yes.

(SEC Exhibit No. 22 was marked for identification.)

BY MR. KELTNER:

Q Can you tell me what Exhibit 22 is?

A It looks like my bio.

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

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

Q It's speaking in the present tense about you being the senior investment level?

A Yes, it may be the SIBL website.

Q Okay, and this is the bio. You would have written this bio?

A Yes.

BY MR. KING:

Q Do you know Ken Weedon?

A Yes.

Q Who was he?

A He's in charge of the analysts in Memphis. He's their direct report.

Q Does he participate in the preparation of reports for Laura, do you know?

A Yes.

Q Did he from time to time send you periodic reports of tier II assets while you were in Antigua?

A I don't think so. I mean, because they got mostly Fred Palmliden was in charge of that. I mean it's possible in Fred's absence. I might have gotten a report from someone

else.

Q Do you have an understanding as to how Ken joined the company?

A I don't understand. I mean--

Q Did he have a supplier relationship with Mr. Davis before joining the staff?

A Yes, he's Laura's brother-in-law. I mean, I don t' know. I think he was an attorney, if I remember correctly. You know, then joined, I don't know, seven, eight years ago, maybe.

MR. KELTNER: Let's go off the record. We'll take a break for two minutes. Then we'll come back and get you out of here.

(A brief recess was taken.)

MR. KELTNER: We'll go back on the record for just a few minutes.

BY MR. KELTNER:

Q Just a kind of general question we haven't talked about today. What is Laura's history. What's her background pre-Stanford? Do you know what her qualifications are?

A Professionally, I think it might be her first job. I know she has a master's in mathematics. I'm not sure about her undergrad. She's known Jim Davis for quite some time.

Q Okay.

A Through their church.

Q So she's a friend of Jim's through his church in Baldwin, Mississippi?

A Yes.

Q I understand that maybe a number of the analysts have that connection. Is that true? Are you familiar with other analysts that have that same relationship through the Baldwin church?

A Yes, there's some others. I don't know, maybe Angie, Jimmy Haley. Maybe not so much church, but it's a small town.

Q Okay. Quite a few folks from Baldwin or Tupelo?

A Tupelo, Baldwin, Northern Mississippi.

Q Where did Laura go to school. Do you know?

A Mississippi State.

Q Okay, and did she get her masters from there as well?

A I'm sorry. Her masters from Mississippi State; her undergrad from some private college in Mississippi, a women's-only college, I think.

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

MR. EDMUNDSON: Mississippi Women's College, or something like that.

THE WITNESS: Yes, the 'W,' they call it the 'W'.

MR. KELTNER: Okay.

MR. EDMUNDSON: Did the FAs at Stanford Group Company sell CDs in the United States?

THE WITNESS: Yes.

BY MR. KELTNER:

Q And those are the FAs employed by Stanford Group Company?

A Yes.

Q Okay. And was that the primary or only conduit for selling CDs in the U.S.?

A Yes, as far as I know.

MR. KELTNER: I think that's all we've got for now, and hopefully we won't need to talk to you again. You know, it's always possible we will need to follow-up on some things. If we do, we'll contact Patrick. We do always want to give you the opportunity. If there's anything you want to correct, any additional information to provide, we'll give you an opportunity to do so now on the record; and, if there's anything else that comes to mind later, let us know.

THE WITNESS: I think I've said enough.

MR. KELTNER: We're off the record.

(Whereupon, at 2:53 p.m., the examination was concluded.)

PROOFREADER'S CERTIFICATE

In the Matter of: STANFORD GROUP COMPANY
Witness: Michael Zarich
File Number: FW-2973
Date: Wednesday, February 4, 2009
Location: Fort Worth, Texas 76102

This is to certify that I, Donna Raya, (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has

Zarich_Michael_20090204.txt

been compared to the reporting or recording accomplished at the hearing.

______________________ ______________________

(Proofreader's Name) (Date)

Testimony

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. FW-02973-A
STANFORD GROUP COMPANY)

WITNESS: Laura Pendergest-Holt
PAGES: 1 through 168
PLACE: Securities and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, Texas
DATE: Tuesday, February 10, 2009

The above-entitled matter came on for hearing, pursuant to notice, at 1:10 p.m.

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

APPEARANCES:

On behalf of the Securities and Exchange Commission:
MICHAEL KING, ESQ.
D. THOMAS KELTNER, ESQ.
KEVIN EDMUNDSON, ESQ.
DAVID REECE, ESQ.
STEVE KOROTASH, ESQ.
Division of Enforcement
Securities and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, TX 76102

On Behalf of the Witness and Stanford Financial Group:
THOMAS V. SJOBLOM
Proskauer, Rose, L.L.P.
1001 Pennsylvania Ave., N.W., Suite 400
Washington, D.C. 20004

C O N T E N T S

P R O C E E D I N G S

MR. KING: We are on the record at 1:10. Today is February, 10th, 2009. I am Michael King, and with me are Tom Keltner, Kevin Edmundson and David Reece.

For the purposes of today's proceeding, we are officers of the United States Securities and

Exchange Commission. This is an investigation by the United States Securities and Exchange Commission in the Matter of Stanford Group Company, Matter No. FW-2973, to determine whether there have been certain violations of certain provision of the federal securities law.

However, the facts developed in this investigation might constitute violations of other U.S., federal or state, civil or criminal laws. Your testimony today has been subpoenaed as part of the formal investigation.

Ms. Holt, if you would, please raise your right hand.

Whereupon,

LAURA HOLT

was called as a witness and, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. KING:

Q And if you would, please, state and spell your name for the record?

A Laura Holt, L-a-u-r-a. Last name Holt, H-o-l-t.

Q And, Ms. Holt, are you represented by counsel today?

A I am.

MR. KING: If counsel would make an appearance for the record, please.

MR. SJOBLOM: Sure. My name is Thomas Sjoblom with the law firm Proskauer, Rose, representing the company.

Mr. King, before we start, may I make a few statements? First of all, has there been a criminal referral in this matter?

MR. KING: Mr. Sjoblom, I think your client -- you and your client were provided with SEC Form 1662. SEC Form 1662, which your client has in front of her, lays out routine uses of information provided to the Commission.

I am not at liberty as an officer of the United States Securities and Exchange Commission from discussing other than what -- the information included in SEC Form 1662.

MR. SJOBLOM: Currently, are you working together with the United States Attorneys Office in the Northern District of Texas or any other United States Attorneys office?

MR. KING: Mr. Sjoblom, I just referred you to SEC Form 1662.

MR. SJOBLOM: Okay. Next, before you start asking questions, as we've discussed with Mr. Edmundson previously and with many of your predecessors going back four or five years, there's certainly an issue here whether or not the certificates of deposit are securities. So I have an objection to the purported jurisdiction of the SEC over this instrument.

Secondly, it's my view that the bank is located -- that's Stanford International Bank -- is located outside the jurisdiction of the United States and there is no jurisdiction by the SEC over that bank and its product lines and, hence, over the information that, I'm sure, you're going

to seek to elicit today.

Finally, I would just say that, together with Mr. Edmundson, we have agreed this morning that in as much as Mrs. Holt's testimony undoubtedly will refer to banking information, account information, portfolio information and, therefore, implicate the documents of the bank, which are subject to bank secrecy under Antigua law, we have agreed there will not be a waiver of that issue and that confidentiality, even though Mrs. Holt is going to testify to those questions. So I'd reserve all of those objections as we move forward and have them on the record. Thank you.

MR. EDMUNDSON: Just so we're clear, Mr. Sjoblom, do you represent the witness here today?

MR. SJOBLOM: I represent the company Stanford Financial Group and affiliated companies.

MR. KING: And do you represent anybody else in connection with this matter?

MR. SJOBLOM: I represent the companies is who I represent.

MR. KELTNER: Does that include the bank?

MR. SJOBLOM: Not that I -- Not my understanding. My understanding, I represent Stanford Financial Group and affiliated entities inside the United States. That's what my understanding is.

MR. EDMUNDSON: Just so we're clear. As I understand your statement, you do not, as far as you're concerned, represent the witness here today?

MR. SJOBLOM: I represent her insofar as she is an officer or director of one of the Stanford affiliated

companies.

BY MR. EDMUNDSON:

Q Ms. Holt, are you ready to proceed?
A Yes.
Q Okay. Would you like to have personal representation of counsel before proceeding?
A No.
Q Thank you.

BY MR. KING:

Q Ms. Holt, as we discussed before we began, you were provided with a copy of the formal order of investigation in this case, and I think that document is sitting in front of your counsel right now.
A Okay.
Q It will be available to you throughout the day. If at any point you need to refer to it, please feel free to do so. The same goes for SEC Form 1662, which is sitting in front of you now. I think it was previously marked as Exhibit 1, if I'm not mistaken.

Okay. Let's go ahead and mark it as an exhibit then.

MR. SJOBLOM: What is this?

MR. KING: This is SEC Form 1662.

(SEC Exhibit No. 23 was marked for identification.)

BY MR. KING:

Q I'm going to mark it Exhibit 23. For purpose of the record, Ms. Holt, will you acknowledge your receipt of

Exhibit 23?
A I have received it.

(SEC Exhibit No. 24 was marked for identification.)

BY MR. KING:

Q Ms. Holt, I'm also going to hand you now what's been marked as Exhibit 24. I'll represent to you that it is a copy of a subpoena --
A Yes.
Q -- issued by the SEC to you. Is that the -- Is Exhibit 24 the subpoena that you are appearing here pursuant to today?
A Yes.
Q Exhibit 24 asks that you not only appear today, but also produce certain documents to the SEC, correct?
A That's correct.
Q What, if any, search did you engage in in response to receiving Exhibit 24?
A I have reviewed documents and -- but under the regulations of Antigua law have not made those available --
Q Did you bring any documents with you today?
A No.
Q To your knowledge, are any of the documents reviewed, have they been produced to the SEC?
A To my knowledge, no.

MR. SJOBLOM: Well, let me just interject, Mr. King. Perhaps insofar as -- through other regulators documents have been obtained, ceased, produced that may be available to the Commission currently or through some future process.

For example, we know that there's -- that FINRA has most of, if not all, these documents that can be accessed by the Commission. We also know that --

MR. KING: No. Mr. Sjoblom, I'm just asking for this witness's knowledge. I don't want to -- I don't want to -- I mean, this witness can testify whether she knows whether the documents that she -- were produced to the Commission. That's all I'm asking.

MR. SJOBLOM: Mr. King, I'm going to state my position on the record so it's clear, and I'd appreciate if you don't interrupt me.

Now, with respect to the FSRC, the Commission has the ability to deal with the Financial Service Regulatory Commission in Antigua, and there's a statutory provision available to the SEC to do that, and the Antigua regulators have indicated that they would do that. So there are means of following through with the procedure you're asking about.

MR. KING: What have the Antigua regulators indicated they're willing to do to you?

MR. SJOBLOM: As far as I know, if you make an appropriate access request or have a memo of understanding or whatever protocol you deem appropriate, that that's the procedure that's required and they will follow it.

MR. KING: Okay. Will you state for the record

right now that you, as counsel to the Stanford Financial Group corporate entities, have no objection to the FSRC producing information to the SEC?

MR. SJOBLOM: I think we've already so stated. I mean, I gave Mr. Edmundson a copy of the letter. He has it in his hands. That should be known to you, Mr. King.

MR. KING: Okay.

BY MR. EDMUNDSON:

Q One follow-up. The document that you reviewed for purposes of your testimony today, did you review some documents that were available to you in your office in Memphis?

MR. SJOBLOM: Other than banking documents.

MR. REECE: That was not the question.

THE WITNESS: Could you please --

MR. EDMUNDSON: Yeah.

THE WITNESS: -- restate the question?

BY MR. EDMUNDSON:

Q You testified that you reviewed certain documents in advance of your testimony; is that right?

A Yes.

Q Were some of those documents made available to you in Memphis?

A Some documents are available in Memphis.

Q And you reviewed certain documents in Memphis?

A Yes. Well, in Tupelo --

THE REPORTER: Well, I'm sorry. What?

THE WITNESS: In Tupelo. Tupelo, Mississippi, T-u-p-e-l-o.

BY MR. EDMUNDSON:

Q How about in Boca Raton?

A No.

Q Were there other documents in the United States that were made available to you that you reviewed in advance of your testimony?

MR. SJOBLOM: Can you be more specific as to the type of documents?

BY MR. EDMUNDSON:

Q Anything. Anything.

A I'm sure there have been some documents in the United States that are available, yes.

Q All right. But you did review some documents in Tupelo prior to your testimony here today, right? You looked at some documents in Tupelo?

MR. SJOBLOM: She's shaking her head no.

THE WITNESS: I'm sorry. There are a lot of documents. Could we please be more specific as to what you're --

BY MR. KING:

Q Let's ask it this way: What did you do to prepare -- without telling me about any conversations with Mr. Sjoblom --

A Right.

Q -- what did you do to prepare for your testimony today?

A I have been to Antigua. I have reviewed statements and looked through, gosh, other issues, but mainly I have

reviewed the statements of SIBL in Antigua.

BY MR. EDMUNDSON:

Q I am confused. I thought I understood your testimony just a few minutes ago that you reviewed some -- some documents.

Did you review any documents in preparation for your testimony here today in Tupelo?

A I'm sorry. I'm thinking. In preparation of today in Tupelo? No.

BY MR. KING:

Q Okay. Who did -- Without telling me the substance of the conversation, who did you meet with in preparation for your testimony today?

A Mr. Sjoblom.

Q Anybody else?

A In preparation of my part, no.

Q Okay. You said this morning that you spoke with Mr. Davis on the telephone, correct?

A I did.

Q And that's Jim Davis, correct?

A That is correct.

Q What did you talk about?

A I actually just talked --

MR. SJOBLOM: Well, first of all, was there a lawyer present? Can we go off the record just one second? Mr. King, may we?

MR. KING: Sure. Let's go off the record.

(A discussion was held off the record.)

MR. KING: Let's go back on the record.

BY MR. KING:
Q This morning you talked to Mr. Davis, correct?
A I did.
Q Anybody else on the telephone?
A No.
Q What did you talk about?
A Actually, I just called to ask him how he was doing and to check in. He's my immediate supervisor.
Q Mr. Davis know that you're testifying here today?
A Yes.
Q Did you ever have discussion outside the presence of an attorney to discuss with Mr. Davis your testimony?
A No.
Q Outside the presence of an attorney, did you discuss your testimony with anybody else?
A Not to my recollection, no. Well, do other people know I am here today? Yes. Did I discuss my testimony? No.
Q How do they know you're here today?
A Well, my husband knows I'm here today. I'm traveling.
Q Okay. Did -- In preparation for your testimony today with Mr. Sjoblom, was anybody else present when you were preparing?
A If Mr. Sjoblom were present, is that --
MR. SJOBLOM: No. He's asking when we were talking, was there a third person present. For example, when we were preparing last night, was there a third person present?

THE WITNESS: Oh, no.
BY MR. KING:
Q All right. What documents did you review in Antigua?
A Second tier portfolio advisor statements.
Q What do you mean by "second tier"?
A It is the second tier of the portfolio. It is a globally diversified investment portfolio that uses portfolio advisors.
Q Okay. So portfolio of who? Who owns that portfolio?
A Stanford International Bank.
Q Okay. But you're not a bank employee, correct?
A That is correct.
Q But you reviewed weekly statements -- or statements that belong to the bank?
A I review weekly reports and monthly statements.
Q Okay. Before we get too far down this road, what's your -- what's your educational background?
A I have a bachelor degree of mathematics, fundamental and analytical. I am also a math education major, and then in my master study I am a mathematician, fundamental versus quant, and also a minor in statistics.
Q And what's -- what's your employment history? Currently you're an employee of Stanford Financial Group, correct?
A That's correct.
Q Where did you work before you worked with Stanford Financial Group?

A I came into Stanford from a master's study in mathematics.
Q So it was your first job?
A Yes.
Q Okay. What background do you have in investments, securities?
A When I first came into Stanford, I trained under Mr. Davis on markets, market research and oversaw a commodity portfolio.
Q Okay. Prior to joining Stanford, what was your experience with investments?
A There was no experience prior to joining Stanford.
Q When were you hired at Stanford?
A June 2nd, 1997.
Q What were you hired to do?
A Research.
Q What does that mean?
A I was hired to research various financial markets, really study charts from a technical or statistical study.
Q How did you come to work at Stanford?
A I knew Mr. Davis.
Q How did you know him?
A I knew him from my hometown, from Baldwin, Mississippi.
Q For how long?
A Ten years, maybe.
Q Okay. How old were you when you started at Stanford?

A Approximately 23. I'm trying to think if that was before or after my birthday. Early 20s.
Q So you had known Mr. Stanford since you were 13?
A I did not know Mr. Stanford, no.
Q I mean -- Excuse me. Mr. Davis since you were 13?
A No, that's not accurate. I've know Mr. Davis probably since I was 16 -- 15, 16.
Q Just a family friend?
A I knew him through church.
Q Okay. I want to just define a few terms before we go forward so that we don't --
A Okay.
Q -- cloud up the record. Okay?
If I say "Stanford Financial Group," you understand what entity it is that I'm talking about?
A Yes.
Q And what entity is that?
A That is Stanford Financial, the group that I am employed by.
Q Does your paycheck say "Stanford Financial Group" on it?
A Yes, it does.
Q And if I say --
BY MR. KELTNER:
Q Is that a specific entity?
A Yes, it is.
Q You know what the legal name is? Is it Financial Group, L.L.C.?
A I do not know. Sorry. I believe it's Stanford

Financial Group Company, and I don't know the initials after it.

BY MR. KING:

Q Okay. Who are -- Who are the principals at Stanford Financial Group?

A Mr. Stanford is the sole shareholder.

Q Who runs Stanford Financial Group's day-to-day business?

A I'm sorry.

Q What is -- Okay. Let's start here. What is Stanford Financial Group's business?

A We provide services to our other affiliated companies.

Q Okay. And does Mr. Stanford run the day-to-day operations at Stanford Financial Group?

A I wouldn't say he runs the day-to-day, no. There are a lot of day-to-day, and that would be micromanaged from his point.

Q Okay. What does Mr. Stanford do on behalf of Stanford Financial Group?

A I do not know.

Q Okay. Who do you work for?

A I work for Mr. Davis.

Q Is Mr. Davis an employee of Stanford Financial Group?

A Yes, he is.

Q What does Mr. Davis do?

A He is chief financial officer.

Q Okay. Since we're doing definitions, if I say "Stanford International Bank," do you know what entity I'm referring to?

A Yes, I do.

Q That's the international bank that lives in Antigua, right?

A It's an international bank that is domiciled in Antigua, yes.

Q Okay. And what business is Stanford International Bank in?

A Banking.

Q What does it do?

A It is an international bank.

Q What products does it have?

A It has certificates of deposit and credit cards.

Q Okay. What -- What is -- Tell me about the credit card business.

A I'm sorry. I don't know.

Q Okay. Does Stanford International Bank do any loans?

A Yes.

Q Tell me about that.

A I'm sorry. I don't know the details of loans.

Q How do you know they do loans then?

A It's listed in the annual report.

BY MR. KOROTASH:

Q These aren't commercial loans, are they?

MR. SJOBLOM: If you know.

THE WITNESS: I'm sorry. I really don't know.

BY MR. KELTNER:

Q Do you know whether or not the loans are secured by certificates of deposit?

A I do believe that they are cash collateralized loans, yes.

Q And, typically, that would be through the certificates of deposits, the investments in certificates of deposit?

A Yes.

BY Mr. KING:

Q How does Stanford International Bank make money?

A I'm sorry. I'm not privileged to exactly how they make money. I -- So if you can narrow it down for me, I'll try to answer your question.

Q Okay. Does Stanford International Bank invest the assets of a portfolio?

A Yes.

Q How do you know that?

A Because I -- or I oversee tier two of the investment portfolio.

Q Okay. So let's go back over what we talked about that you know that the bank does. Okay?

A Okay.

Q You know that the bank has a CD product, correct?

A That is correct.

Q And that it makes investments, correct?

A That is correct.

Q And it makes loans that you believe are secured by the certificates of deposit?

A That is correct.

Q Anything else?

A The investment portfolio, international CDs and loans. To my recollection, that is correct.

BY MR. EDMUNDSON:

Q Just so we're clear, and I'm sure I missed it. When did you start at Stanford? What year?

A June 2nd, 1997.

BY MR. KING:

Q Okay. Stanford Group Company.

A Yes.

Q You're familiar with that entity?

A I am familiar with that entity.

Q What is Stanford Group Company?

A It is our broker dealer. It's a BDIA.

Q When you were hired at Stanford in 1997, what was your title?

A I believe I was research analyst.

Q Okay. What's your current title?

A Chief investment officer.

Q Have you held any other titles besides the two you just named?

A Yes.

Q Tell me what those were.

A Manager -- Vice president, I believe, of research at one point, managing director of research and investments and then chief investment officer. There may have been another one in there. I'm not certain. It's been awhile.

Q You ever work for any other entity besides Stanford Financial Group?

A No. I mean, ever?

Q Since you joined Stanford in 1997.

A No.

Q When did you become chief investment officer?

A Around four years ago -- four or five years ago, maybe.

Q Okay. Where is your office?

A I am in Tupelo, Mississippi.

Q You have an office anywhere else?

A Presently, no.

Q Since becoming chief investment officer, have you had an office anywhere else besides Tupelo?

A Yes. Memphis, Tennessee.

Q During what time period, please?

A 1999 or early -- the end of 1999 through 2007, I believe, is when I officially gave up that office. I have also -- I'm sorry. I have also had an office in Washington, D.C. I was there for one year.

Q What year was that?

A I believe I moved there in October of 2006 and moved back to the Tupelo office, actually, in November of 2007.

Q What were you doing in Washington?

A I was actually there working with the policy research group.

Q What do they go?

A Policy research, working on --

Q It's a good name for them.

A Yeah. It's pretty straightforward. How policy impacts the economy or various sectors.

Q Let's talk about your job duties as chief investment officer.

A Okay.

Q If you will, list for me your job duties.

A I oversee our proprietary research group. In that oversight I help produce the Stanford investment model. I will occasionally review new products that are being offered by affiliated companies and I oversee the second tier of the portfolio.

I also oversee the production of newsletters that are published by my team, not by other affiliated. That's pretty much the gist of it.

Q You serve on any committees?

A Sorry. Recently had restructuring.

Q Tell me about that.

A We -- We have gone to a regional breakdown versus an international breakdown. So we are broke down by regions. I'm not on some of the regional committees. I'm not on any of the regional committees. So as a result, some of the committees that may have been global in the past, are no longer -- I'm part of the Stanford investment committee.

Q Okay. Let's go through all the committees that

you've served on as chief investment officer -- since becoming chief investment officer.

A Okay.

Q List them for me, if you would.

A The Stanford investment committee --

BY MR. KELTNER:

Q Just for clarification. Is that committee -- Which -- Is that for Stanford Financial Group?

A That is for Stanford Financial Group, yes.

Q Is that the committee with -- roughly how many members?

A Approximately, 20.

(The witness conferred with counsel.)

MR. SJOBLOM: May I? Did you say "Stanford investment committee or --

THE WITNESS: I said Stanford. I don't know the formal -- I don't know how it's formally named, but they are the same. I have been on a product vetting committee in the past. I am not currently. I'm sorry. To my recollection, that's it. There may have been others, but --

BY MR. KING:

Q Okay. What about committees for -- I just want to make sure we're clear about what the list is. The list is any committee you've served on for any Stanford affiliated entity, correct?

A Yes. Like I said, there may be others to the best of my recollection. If you have something that you have -- that I've served on, I could certainly confirm it or say that

it's a mistake, but that's from memory. I'm sorry.

Q Did you ever serve on any of the bank committees?

A No.

(SEC Exhibit No. 25 was marked for identification.)

BY MR. KING:

Q I'm going to show you what's been marked as Exhibit 25.

A Okay.

Q Take a look at it, and I'll ask you a couple questions about it.

A Okay.

MR. SJOBLOM: Can I have a copy?

BY MR. KING:

Q Have you had an opportunity to look at Exhibit 25?

A Yes, sir.

Q Have you ever seen Exhibit 25 before?

A No, not to my recollection, even after seeing it.

Q Okay. It appears, as well, on Exhibit 25 that you're listed with four other individuals as a member of the Stanford International Bank limited investment committee, correct?

A Yes, it does appear.

Q You ever serve on the Stanford International Bank limited investment committee?

A On the investment committee, no.

MR. SJOBLOM: Do you have a date when this was?

MR. KING: No.

THE WITNESS: And, actually, I have asked if I were on -- or I tried to see whether or not I were personally on the investment committee. To my knowledge, I was not.

BY MR. KING:

Q Okay. Next to your name there it says "subcommittee." You have any idea what that means?

A No. I'm sorry.

Q Next to your name it says "chief investment officer." That's your current title, correct?

A That is correct.

Q And I believe you told me when you took over as chief investment officer, you said four or five years ago or something like that?

A That's correct.

Q Do you recognize the other people's names here on the investment committee for Stanford International Bank?

A I do.

Q Who's Allen Stanford, R. Allen Stanford?

A He's the --

MR. SJOBLOM: Are you talking generally now or are you talking about the context of this document?

MR. KING: Well, I'm just reading the names off of Exhibit 25.

THE WITNESS: Okay.

BY MR. KING:

Q On Exhibit 25, do you see where it says the name,

R. Allen Stanford?

A Yes, I do.

Q Who's that?

A In terms of his interaction with Stanford or -- I'm sorry? General or --

Q Do you know who that is?

A Yes. Of course.

Q Then who is it?

A It's Allen Stanford. It's Mr. Stanford. It's the sole shareholder of Stanford.

Q Okay. Who is James A. Stanford?

A He is Mr. Stanford's father, chairman emeritus.

Q I think we've already talked about Mr. Davis, correct?

A Yes.

Q Who is O. I. Goswick?

A He was one of the board members.

BY MR. EDMUNDSON:

Q Have you ever met James A. Stanford, the father of Allen Stanford?

A I have.

Q When was the last time that you have met with him?

A Either 2006 or 2007.

Q Approximately how many times do you think you've met with him?

A I'm sorry. In terms of meeting, do you mean seeing him or actually sat down and met with him on a subject?

Q Have you ever met with Mr. Stanford to discuss business relating to Stanford International Bank?

THE REPORTER: I didn't hear what you said.

MR. EDMUNDSON:

Q James A. Stanford.

A Just to clarify which Mr. Stanford. I have made reports on global economies in which he was present with the board a handful of times. Probably more than five, less than ten.

Q And have you ever met O. Y. Goswick?

A I have.

Q When was that?

A Several years ago. I'm sorry. Maybe a year and a half, two years ago minimum. He hasn't been in good health recently.

BY MR. KING:

Q Okay. So you're responsible for the oversight of the tier two portfolio, correct?

A Yes. That is correct.

Q Have you ever discussed with Mr. Goswick the tier two portfolio?

A Individually or in a board setting?

Q Ever discuss it with him individually?

A No, not individually.

Q Have you made a presentation to him as a member of the board regarding the tier two portfolio?

A Yes. I'm so sorry. I really need a rest room break.

MR. KING: Let's go off the record.

(A brief recess was taken.)

MR. KING: All right. Let's go back on the record at 1:51.

BY MR. KING:

Q Ms. Holt, when we were -- when we took our -- before we took our break, I think, we were talking about Exhibit 25.

A Yes, we were.

Q Lists your name there under investment committee. Were you ever on the Stanford International Bank limited investment committee?

A To my knowledge, no.

Q And, I think, you said earlier that you actually asked someone if you were on the investment committee, correct?

A Yes.

Q Tell me about that.

MR. SJOBLOM: Well, foundation again, please.

THE WITNESS: When and with whom?

MR. KING: I think she understood me.

MR. SJOBLOM: We need to have it clarified because there are conversations with lawyers. So --

THE WITNESS: That's correct.

MR. SJOBLOM: When, where, who was present.

BY MR. KING:

Q Who did you discuss whether or not you were on the investment committee with?

A Stanford counsel.

Q Okay. Mr. Sjoblom?

A No. In-house counsel.

BY MR. KELTNER:

Q Who was that?

A Mauricio Alvarado.

BY MR. KING:

Q Approximately when did that conversation take place?

A Recently. Not long ago. I can't give you a specific time or specific date.

Q Last week?

A No. Longer ago than that, actually. Probably two -- two weeks, a month ago, in that vicinity.

BY MR. KOROTASH:

Q Why were you having a conversation with him?

A I was trying to find out what committees I was on as it related to Stanford International Bank.

Q Okay. What did he tell you?

MR. SJOBLOM: No. Stop. Stop.

BY MR. KOROTASH:

Q What did he tell you?

MR. SJOBLOM: No. Object. That's a privileged question.

MR. KOROTASH: Why is that?

MR. SJOBLOM: Because he's counsel to the company.

MR. KOROTASH: She's not asking for legal advice, Tom, what committee she's on.

MR. SJOBLOM: It has legal --

MR. KOROTASH: It's not legal advice. Are you directing her not to answer my question?

MR. SJOBLOM: Yes.

BY MR. KING:

Q Okay. I think we were talking about your job duties --

MR. KOROTASH: Wait a second.

BY MR. KOROTASH:

Q What made you think you were on the committee or might be on the committee?

A I have made presentations before on research, but have not been to all committee meetings. And so as I had made presentation, it was a very fair question as to whether or not I was the invited guest or whether I were, in fact, on the investment committee.

BY MR. KING:

Q How many times did you make presentations to the investment committees?

A Probably five to ten times.

BY MR. KELTNER:

Q Did you ever represent yourself to be a member of the investment committee?

A No.

Q You're sure of that?

A To the best of my recollection, I have not. As IS shown by papers that can be produced, though, there could be possibly something out that recalls me to say differently, but, to my recollection, no.

BY MR. KING:

Q Let's talk about your other job duties as chief investment officer.

A Okay.

Q In that capacity, what documents do you review?

A I'm sorry. I gave you a long list in relation to that.

Q You know, doing your job.

MR. SJOBLOM: And the question is?

BY MR. KING:

Q What documents do you look at in doing your job as chief investment officer?

A I review research reports prepared by my team, independent research from Bloomberg, independent research from other areas, such as, Don McCarthy, S&P, and other such areas.

Q What documents -- What Stanford International Bank documents do you review in doing your job as chief investment officer?

A Tier two portfolio, statements and weekly reports and the compiled reports presented to me by my team. "My team" being proprietary research.

Q What else?

A I review various global economic pieces sent by the portfolio advisors; what their global outlook is, for example.

Q That comes from the bank?

A No. That would come from the actual tier two advisors -- the portfolio advisors for the bank. So it's through those accounts that I receive that information.

Q What else?

A That's pretty much it.

Q How do you get to -- What is a portfolio statement?

A It's a statement of holdings including transaction statements and listings of deposits and withdrawals generally on a monthly basis. They can be quarterly.

Q And how do you get the portfolio statements?

A They are generally -- They are generally a hard copy to Stanford International Bank in Antigua.

Q How do you get them?

A I either go to the bank and get them. There are cases in which they are e-mailed from -- directly from the portfolio advisor, not from the bank.

Q Okay. So there are occasions when they send them to you in Tupelo?

A Yes.

Q Via e-mail?

A Via e-mail, not hard copy. That's correct. I went to Antigua to see them. I'm sorry.

Q You got -- Do you bring a copy of the portfolio statements back to Tupelo?

A Generally not.

Q Have you from time to time?

A Yes.

BY MR. KING:

Q What's the weekly report?

A The weekly report is a faxed copy. It's generally faxed. It can be e-mail from the portfolio advisor just stating the value of the portfolio tier two for that given week.

We generally receive weekly reports from all advisors. Some we receive only monthly or quarterly reports.
MR. KELTNER:
Q And the weekly reports are all delivered to you at your office and --
A They are faxed or e-mailed. Not always to me specifically. Sometimes to members of my research team.
Q Okay. But to someone in Tupelo or Memphis?
A Or St. Croix, yes. Just so we can have it straight for the record, I have analyst in different locations.
MR. SJOBLOM: What was the question?
MR. KELTNER: I think it's been answered.
BY MR. KING:
Q How many portfolio advisors does Stanford International Bank have?
A In tier two, Stanford International Bank has approximately 20. I think the exact number is 17.
Q So 17 portfolio advisors fax a weekly report to you?
A No, not all 17. As I just mentioned, most of them are weekly. Some are monthly or quarterly.
Q How do they actually come to your desk? Do you actually see each individual weekly report?
A No, I do not. They are generally given to the research advisor or the research analyst on my team who

oversees that report on a weekly basis. I would get a compiled report that has been put together by one of my analyst.
Q Which analyst?
A Fred Palmliden.
MR. SJOBLOM: P-a-l-m-l-i-d-e-n. P-a-l-m-l-i-d-e-n.
BY MR. KING:
Q Okay. And does Mr. Palmliden make any changes to or -- these weekly reports or monthly reports?
In other words, does he just pass along the information, consolidate them into one batch and then send them to you or does he add content to the document?
A He compiles them only.
BY MR. KELTNER:
Q What does that mean?
A He is going to -- How does he compile them? I'm sorry.
Q What does "compile" mean?
A Okay. So each analyst is going to receive a portfolio report. They are going to put what their report contains into various categories. They are going to send their reports to Fred. Fred is then going to compile all of those reports and send them to me.
Q Okay. So when you say "compiled," do you mean puts them in a spreadsheet?
A Yes.
Q That's what I wanted to know. Compile could mean --
A I'm sorry.

Q -- put them all in a stack and --
A No. No. No. He puts them in a spreadsheet and gives the spreadsheet to me. I do not physically touch the weekly reports.
Q So --
BY MR. KING:
Q What do you -- What do you do with the compiled report?
A I look at it. I review it.
Q For what?
A I look to see the performance, week to date, of the portfolio, including and excluding cash. I'll look at the diversification of the overall portfolio by product, by privacy breakdown and then I'll look at the individual advisors for the same information.
Q Who else gets a copy of the compiled report?
A It's actually sent out by Fred Palmliden. I could go back and look at the two lines, but to state them all -- I don't send it to anybody. It's sent out by Fred.
Q So you don't forward the compiled report to anyone?
A No, I do not.
Q You don't know who gets it?
A Not without looking. I would be guessing to start quoting names right now.
Q Does Jim Davis get it?
A Yes.
Q How do you know that?
A I do recall his name being on the tier list.

BY MR. KELTNER:
Q Do you get copied on Fred Palmliden's e-mails?
A Yes. I get copied on the e-mail. And I don't know every name on there.
Q Does Robert Allen Stanford get it?
A Is his first name Robert?
Q I think so.
A I thought it was Randy. It doesn't matter. I'm sorry.
Q Sir Allen Stanford?
A Sir Allen Stanford. I honestly do not recall.
(The witness conferred with counsel.)
BY MR. KING:
Q Okay. Ms. Holt, you're -- we've gone over this several times now. You're not an employee of the bank, correct?
A Correct.
Q But you review portfolio statements relating to the bank's holdings?
A That's correct.
Q Have you ever signed any kind of confidentiality agreement with the bank?
A To my knowledge, no.
Q Who is your supervisor at Stanford Financial Group?
A Mr. Davis.
Q Jim Davis?
A Yes. That's correct.
Q I believe you told me earlier that he's the chief financial officer?

A That is correct.
Q What does he do for Stanford Financial Group?
A He's the chief financial officer.
Q What does the chief financial officer do?
A He oversees the investments, investment committee -- or the investment area of research, accounting, treasury, risk. I believe that's all.
Q Okay. The first thing you said there was he oversees the investment portfolio?
A No. I'm sorry. The investment and research division. That's my division. Currently known as global research division.
Q Okay. I think you said he oversees treasury, right?
A That's correct.
Q What is -- What is treasury for Stanford Financial Group?
A It's other treasury functions.
Q It's not the same treasury function for Stanford International Bank, though, correct?
A I do not know. I believe -- I know -- I don't know. I'd be speculating.
Q Does he oversee treasury for Stanford International Bank?
A I don't know. I'm sorry. I do want to clarify treasury. Houston has access to tier -- or have some interaction with tier one. As to whether or not that is the only treasury of Stanford International Bank, I do not know.

Q And how do you know that treasury would have -- the treasury group in Houston would have some interaction with the bank?
A I have requested wire transfer instructions from them in the past.
BY MR. KELTNER:
Q Is that Patricia Maldanado?
A Yes.
Q The person you interacted with?
BY MR. KING:
Q What were those wire transfers?
A Recently when we were redeeming or liquidating portions of second tier, I would send the cash to tier one and I would request the wiring instructions from Patricia.
Q Okay. So if you -- when your oversight function for tier two had liquidated a position and you needed to send cash to someone, you're sending it to the treasury -- your group in Houston?
A No. I'm actually sending that to the correspondent bank, but I would receive the wire transfer instructions from the treasury group.
Q Okay. Does anybody else at Stanford Financial Group supervise you?
A No.
Q You said that Mr. Davis was responsible for the risk function. What does that mean?
A That's our insurance area, various insurance policies.
Q And what policies are those?

A I'm sorry. Could not even begin to name what all our insurance policies are.
Q Okay. How does Mr. Davis oversee the investment and research function of Stanford Financial Group?
A If I understand your question, I do report to him. I give to him our research. I present to him all of our reports. If I need permission to bring somebody on, of course, would run that hiring process through him.
Any salary increases that would be overseen by my group or would be given to my group, I would request those to be approved by him. Expenses are approved through him. But in terms of, like, day-to-day research calls, he doesn't go that far into the micromanagement.
Q Okay. Let's talk about who you supervise. I don't want to talk about names. I want --
A Okay.
Q -- to talk about just general positions at this point.
A Okay.
Q Who do you supervise?
A I oversee a team of research analysts. They research global economies, global markets, noncorrelated products and global asset allocation.
Q Okay. Do you supervise anyone other than the analysts?
A I do. Franchesca McClain and Nil Willard. Both of those, we hope in the future that they will oversee product. Currently, neither has been assigned or put to market.

MR. SJOBLOM: Can you say those again?
THE WITNESS: Sure. Franchesca McClain and Nil Willard. And Franchesca is a water analyst. Nil Willard is a fixed income analyst.
BY MR. KING:
Q Anybody else besides the analysts, Ms. McClain and Mr. Willard?
A That I directly supervise?
Q (Nodding.)
A No.
Q Has Stanford International Bank -- Does Stanford International Bank have a senior investment officer?
A No.
Q Does Stanford Financial Group have a senior investment officer?
A No.
Q Has Stanford International Bank ever had a senior investment officer?
A Yes.
Q Tell me about that.
A Michael Zarich was Stanford's -- Stanford International Bank's senior investment officer, I believe, starting in 2005, maybe. Possibly 2004. I know 2005 through, I believe, 2007.
Q Okay. So let me make sure I got the list right and then I want to drill down on some of these.
A Okay.
Q Basically, you supervise the analysts and then Ms. McClain and Mr. Willard, but you don't supervise the senior

investment officer?
A I did not supervise the senior investment officer, no.
Q You didn't supervise Mr. Zarich?
A No.
Q Just generally, as the analyst roles and responsibilities -- what do the analysts do?
A As I've already mentioned, they research the various areas I mentioned; global economies, markets, asset allocation, technical analysis, fundamental analysis. So that's their general research functions. Again, very general.
Q Where do the analysts office?
A They have offices -- Some are officed in Memphis, some in Tupelo, the remainder in St. Croix.
Q Okay. I believe you said earlier that the bank makes investments, offers CDs, does a few loans that are backed by the CDs, correct?
MR. SJOBLOM: No. She didn't say that.
BY MR. KING:
Q Makes loans backed by the CDs, correct?
A Yes.
Q Okay. How does -- Let's talk about the --
A And I said that was to my knowledge what they did? It certainly -- not necessarily all inclusive of what they do.

Q Just generally, how does it sell the CDs in the United States?
A They are a BDIA.
Q Stanford Group Company?
A Yes.
Q And how many offices does Stanford Group Company have in the United States?
A Oh, dear God. I don't know the exact number. And I could start naming cities, if you would like.
Q Okay. More than a dozen?
A Yes. Absolutely.
Q And --
MR. SJOBLOM: More than a dozen cities or more than a dozen entities?
THE WITNESS: Both.
BY MR. KELTNER:
Q Stanford Group Company?
A Yes. I believe it's more than a dozen. Let's see. What it is? Bigger than a breadbox, smaller than a cart. Somewhere in that vicinity.
BY MR. KING:
Q Okay. Your office is in Tupelo?
A That's correct.
Q Was formerly in Memphis?
A Yes. That is correct.

Q Mr. Davis' office is where?
A He has offices in both Tupelo and Memphis.
Q And he's the chief financial officer of Stanford Financial Group --

A That's correct.
Q -- correct? And the analysts all office in Memphis, correct?
A No. That is not correct. They are in Memphis, St. Croix and Tupelo. Not in all three. Some are in Tupelo. Some are in Memphis. Some are in St. Croix.
Q Okay. How many analysts are in Memphis?
A Approximately 12.
Q How many analysts are in Tupelo?
A Five.
Q How many analysts are in St. Croix?
A Three. I hope that comes up to number. It's thereabout. It's approximate.
Q Are there any analysts in Antigua?
A No, not that I directly supervise.
BY MR. KELTNER:
Q How long have the analysts been in St. Croix?
A Going on two years, I believe. Over a year.
Q So the analysts -- A large percentage of the analysts are in Memphis, correct?
A That's correct. Yes.

Q And you, as the chief investment officer, are in Tupelo?
A That's correct.
Q And Mr. Davis, the chief financial officer, a member of the investment committee, is in Memphis, correct?
A Mr. Davis in Memphis and in Tupelo.
Q So is it fair to say then that the portfolio

management of Stanford International Bank, at least to the extent that you know about it, happens in Memphis?
A No. That is not correct.
Q I'm going to show you --
MR. SJOBLOM: Can you please repeat that last question?
(The reporter read back the record.)
BY MR. KING:
Q And your answer was no, correct?
A That is correct.
Q Where is the portfolio management function of the bank performed?
A To my knowledge, it's performed where the portfolio advisor is. So some of our portfolios would be advised or managed out of Switzerland. Some would be managed out of Toronto. Some would be managed out of London. Some would be managed in Memphis by SSM. It's going to be dependent upon where the portfolio advisor is.

BY MR. KELTNER:
Q Who oversees the management from the Stanford Financial Group?
A The board of directors officially oversees them. As I stated earlier --
MR. SJOBLOM: That's it.
THE WITNESS: Okay.
BY MR. KING:
Q All right. Now, I want to show you what's been marked previously as Exhibit 13. I'll represent to you that it's a presentation by Stanford International Bank.

A Okay.
Q Have you ever -- Take a look at the front page there, if you want to. I just handed you a page that's not numbered.
Have you ever seen that before -- ever seen Exhibit 13 before?
A The entire presentation at one time, no. I have seen bits and pieces of it on separate occasions.
Q When was that?
A Gosh, over the years. It could have been in FA presentations or trips to Antigua.
BY MR. KELTNER:
Q When you say "FA presentations," do you mean training meetings for --
A Yes.
Q -- financial advisors --
A Yes.
Q Not just financial advisors but broker dealers?
A Yes.
THE REPORTER: Can I get you to keep your voice up?
BY MR. KELTNER:
Q Training presentations to employees of the broker dealer who sell the CDs?
A Correct.
BY MR. KING:
Q Okay. If you'll turn to page that --
A Yeah.
Q Oh, before we do that. Have you seen a

presentation like this used with investors in the CD?
A This exact one, I cannot recall. Have I seen similar presentations? Yes.
Q Okay. Let's look at the slide there that says "management support" at the top. Do you see that?
A Uh-huh.
Q And you see there at the bottom is says "portfolio management" --
A Uh-huh.
Q -- CFO's office in Memphis, Tennessee?
A I do see that.
THE REPORTER: I'm sorry. I need you to let him finish his question.
THE WITNESS: I'm sorry. I do see it.
BY MR. KING:
Q Did you -- Have you ever seen this slide before?
A To the best of my recollection, no.
Q Is there anything inaccurate about that slide --
A Yes.
Q -- Exhibit 13?
A Absolutely. We oversee the portfolio. We do not manage the portfolio.
Q When you say "we," who are you referring to?
A My team. So as much as it is up to my knowledge and my group, we oversee portions of the portfolio. "Portion" being tier two.
Q But you don't know that the management support slide in Exhibit 13 is inaccurate as to tiers one or three, do you?

A I do not know.
Q You don't know whether exhibit -- You don't know where tier one and tier three are managed?
A No.
Q You have any reason to believe that Exhibit 13 is inaccurate?
A As much as it pertains to my group, it is inaccurate.
Q As to the bank's portfolio --
A I cannot speak to the bank's portfolio in its entirety.
Q I think you -- When we were talking earlier today and you made your presentation, I think you said that you'd just gotten back from Antigua, correct?
A That is correct.
Q Who did you meet with in Antigua?
A I was actually there with my team -- or with specific members of my team.
Q Which ones?
A Fred Palmliden, Ken Weeden, Tao Yu -- T-a-o. Her last name is Y-u -- David Bishop and Wade McGee, M-c-G-e-e, and myself. I believe that's it.
Q Okay. Who did -- Who did you and your team meet with from the bank?
A We were actually there for our own purpose, not for other meetings.
Q Did you meet with any bank employees during your trip?

A I did. I met with Juan Rodriguez.
Q What did you and Juan Rodriguez discuss?
A We actually discussed global economies.
Q Anything else?
A That I met with Mr. Rodriguez about or meetings in general? I'm sorry.
Q Anything else you discussed with Mr. Rodriguez?
MR. SJOBLOM: Was there a lawyer present?
THE WITNESS: No.
BY MR. KOROTASH:
Q Doctor?
A No.
(The witness conferred with counsel.)
BY MR. KING:
Q So the only thing you discussed with Mr. Rodriguez was global economies?
A Yes and no. When I actually met with him, yes. There were other meetings. There was a teleconference that I was part of.
Q Let's talk first just about Mr. Rodriguez.
A Okay. He was on the teleconference. So --
Q Oh. And was there -- was there any lawyers on this teleconference?
A I don't know.
Q Who was on the teleconference?
A I don't know everybody who was on the teleconference. I'm sorry.
Q Who do you know was on the teleconference?
A I know it was Mr. Rodriguez, Mr. Davis and myself

because we were in a room together. I do not recall who was on the other end.

Q What was the purpose -- purpose --

MR. SJOBLOM: Can we get a when, when this happened, a date?

THE WITNESS: Trying to think when I was in Antigua. Second, third week of January, I suppose.

BY MR. KING:

Q What was the purpose of the teleconference?

A It was a teleconference with one of our financial advisors.

Q Which one?

A Tom Espy.

Q Who does he work for?

A Stanford Group Company.

Q What was on the agenda on the teleconference?

A It was for a client.

Q What does that mean?

A It was a teleconference for a client -- or a client who had a CD. I came in to get the global economic piece.

Q A potential client?

A Existing client.

Q Okay. Who's the existing client?

MR. SJOBLOM: If you know.

THE WITNESS: I do. Gary Magness.

BY MR. KING:

Q How do you spell his last name?

A I have no idea. I'm sorry. I'm assuming like it sounds.

MR. SJOBLOM: Can we go off the record a minute?

MR. KING: Sure. Let's go off the record.

(A discussion was held off the record.)

MR. KING: Let's go back on the record.

BY MR. KING:

Q Ms. Holt, I think we were talking about a teleconference with a --

A Yes.

Q -- with an existing city client, correct?

A Yes.

Q What was the purpose of the teleconference?

A I was brought in to discuss global economies. The FA had requested a meeting for a client and --

Q Which FA?

A Tom Espy.

Q Oh, I'm sorry. Were you on the entire call or just a portion of the call?

A I was on the entire call.

Q What I'm trying to get out here, is was there a particular issue --

A Oh.

Q -- with this --

MR. SJOBLOM: Well, okay. I'm just going to state the objection, then you can do what you feel appropriate. To the extent you start inquiring into the customers personal

banking information, you may have a privacy issue. So you can treat it the way you want to treat it.

BY MR. KING:

Q I'll just ask it this way: Why did this customer request a call with you, Mr. Davis and --

MR. SJOBLOM: I don't think she said that.

THE WITNESS: They didn't request a call with me and Mr. Davis.

BY MR. KING:

Q How did the call come to being?

A The financial advisor, Tom Espy, had said that the client would like to have a conference call with the bank. I was there as was Mr. Davis, but the client did not request to speak -- to my knowledge, the client had not requested to speak to me personally.

Q Okay. What was the issue that was -- Just list for me all the issues that were discussed during this call.

MR. SJOBLOM: Well, I'm going to object. I mean, obviously, you have a person here that is an officer or director of an affiliated entity of a bank and you're talking about bank information. We need to be careful about the privacy act issue. I can't expose a bank officer to that type information.

BY MR. KOROTASH:

Q Let me try it this way. Did Mr. Davis --

A He spoke, but it wasn't a presentation.

THE REPORTER: I can't hear you?

THE WITNESS: I said, he spoke, but it wasn't a

presentation.

BY MR. KOROTASH:

Q Okay. And what did he speak about? He talked about the assets of bank, did he not?

A I'm thinking. Trying to recall how the conversation went.

MR. SJOBLOM: If you know. If you can recall.

THE WITNESS: I'm sorry. I cannot recall exactly what Mr. Davis spoke about.

BY MR. KOROTASH:

Q Okay.

A Sorry.

BY MR. KING:

Q What did Mr. Rodriguez speak about on the call?

A He spoke about CD redemptions. He spoke about the bank, and that was about it.

Q At any time in this teleconference, did anyone express concerns about the bank's portfolio?

A There were questions raised about the bank's portfolio, yes.

Q What questions?

A What the numbers were for year end, what the returns were for year end for the investment portfolio. I'm sure there were other questions about the bank portfolio.

Q All right. We talked about your conversation with Mr. Rodriguez about the global economics. One question I didn't ask you about that, how long did the conversation about global economics last?

A Ten, 15 minutes. It was a short meeting.

Q And how long did the teleconference last?
A Well less than an hour.
Q Did you have any other meetings with Mr. Rodriguez during your visit to Antigua?
A No, I did not.
Q During your tenure as chief investment officer, have you ever discussed with Mr. Rodriguez the bank's portfolio?
A I have discussed with him tier two, yes.
Q Have you ever discussed with him anything other than tier two?
A No. In specifics, no.
Q How about generally?
A We have discussed the overall investment philosophies, but that's about it.
Q Does Mr. Rodriguez know what assets are held in tier three?
MR. SJOBLOM: If you know.
THE WITNESS: I do not know.
BY MR. KING:
Q Okay. From now on every question I ask you is if you know. Okay?
A Right.
Q If you don't know, just tell me you don't know.
A Okay.
Q So I want to make sure we're clear on that. Does Mr. Rodriguez know what assets are held in tier three?
A I do not know.

Q You have never discussed tier three with Mr. Rodriguez?
A Only in presence of counsel.
Q Mr. Sjoblom?
A Uh-huh.
MR. KING: I know you're going to make your objection, but I'm going to ask her what she said and tell him who you represent.
BY MR. KING:
Q So what was talked about in your meeting with Mr. Rodriguez and Mr. Sjoblom?
MR. SJOBLOM: Okay. Objection. Actually, I will clarify, because you asked me something earlier on who I represent. I went back and called my secretary to go back and pull the engagement letter to be clear who I represent.
I'm engaged by Stanford Financial Group and all of its affiliated companies. So any conversation that regards any bank officer of any Stanford affiliated entity, which I am present, I'm going to view as attorney/client privilege. I will instruct the witness not to answer.
MR. KELTNER: And that includes Stanford International Bank?
MR. SJOBLOM: That's specifically why I said that, because Mr. King asked me with capacity. I called back to clarify. What the engagement letter says is Stanford Financial Group and all affiliated companies, plural.
MR. KELTNER: So do you interpret that to mean --
MR. SJOBLOM: Yes, I do.
MR. KELTNER: -- Stanford International Bank?

MR. SJOBLOM: Yes, I do.
MR. KELTNER: Okay.
MR. SJOBLOM: Affiliated company, therefore, I represent the bank.
MR. KING: Okay.
BY MR. KOROTASH:
Q I want to get back to the conversation just for a second. Did that conversation happen recently?
A I'm sorry. What conversation?
Q The conversation -- I'm sorry. The conversation we were just talking about. The one with --
MR. SJOBLOM: The one which I was present?
MR. KOROTASH: Yeah.
BY MR. KOROTASH:
Q Mr. Sjoblom was there and --
A Yes.
THE REPORTER: I can't hear. You guys are making side comments and I can't --
(Speaking simultaneously.)
BY MR. KOROTASH:
Q So we had a conversation with the president of the bank where, apparently, tier three assets were discussed, but Mr. Sjoblom was there?
A That is correct.
Q And when did that conversation take place?
A Last week.
Q Okay. Now, did -- I trust that -- I want to ask you one simple question. When you heard what Mr. Rodriguez

had to say, were you surprised?
MR. SJOBLOM: First of all, she never said Mr. Rodriguez said anything. You asked her, was there a conversation which I was present regarding tier three to which she said it was last week.
There's been no establishment that Mr. Rodriguez said anything.
MR. KOROTASH: Great, great point. Let me -- You're really good at this foundation stuff. Let me try it again.
BY MR. KOROTASH:
Q When you -- when this conversation took place, did Mr. Rodriguez make any remarks?
A Does that fall under --
MR. SJOBLOM: Yeah. Did he make a remark? Yes or no?
THE WITNESS: Yes.
BY MR. KOROTASH:
Q Huh?
A Yes.
Q Okay. When you heard what he had to say, were you surprised?
A Was I personally surprised?
Q Yes.
A No.
Q Okay.
BY MR. KING:
Q Okay. Before we move onto new issues --
A Okay.

Q -- you and your team went to Antigua the second or three week in January, right?
A That's correct.
Q The people you identified earlier?
A Yes.
Q And we've gone through a couple of meetings with Mr. Rodriguez, one brief conversation --
A Uh-huh.
Q -- about global economics, the teleconference --
A Yes.
Q -- and then also a meeting with counsel, correct?
A No, I did not have any meeting --
Q Okay.
A -- with counsel at Antigua.
Q Okay. Did you and your team meet with anyone else from the bank during your trip to Antigua?
MR. SJOBLOM: Say it again, Mr. King.
THE WITNESS: I'm sorry. I --
BY MR. KING:
Q Did you or anybody else on your team meet substantively -- about any substantive issue with anyone else from the bank besides Mr. Rodriguez?
A On the bank, no.
Q I'm sorry. What was your answer?
A I said, on Stanford International Bank did I have

any further meetings, no.
Q Do you know if anyone from your team had any meetings with anyone from the bank?
A To my knowledge, no.
Q Okay. So as far as your trip to Antigua goes, it was -- you and your team didn't need any guidance from anyone at the bank for what to do, right?
A That's correct.
Q Okay. What were -- And what were you and your team doing in Antigua again?
A We were reconciling year end statements and year end balances for second tier of the portfolio and classifying those holdings.
Q Okay. So just to be clear. As to tier two, you did not need to meet with Mr. Rodriguez?
A No. I just needed the statements.
Q I think during your presentation this morning you said that your research function that -- for the SIM piece of this, right? What does SIM stand for?
A Stanford investment model.
Q Okay. So Stanford investment model, you do research and then you provide that research to Stanford affiliated companies, correct?
A That's correct.
Q Does that include Stanford International Bank?
A Yes, it does.
Q So in providing research to Stanford International Bank, do you need to have at least a general understanding of what the bank's investment philosophy is?

A No, I do not need to.
Q You have no need to know what the person your providing research to, what their investment philosophy is?
MR. SJOBLOM: I think she testified no.
THE WITNESS: No.
BY MR. KING:
Q Okay. Why not?
A Because --
MR. SJOBLOM: Calls for speculation. If she says she doesn't have any reason to know anything, why would --
BY MR. KING:
Q Why not?
MR. SJOBLOM: Calls for speculation.
BY MR. KING:
Q Why not?
A Why not what? Why does it not impact my research.
Q Yeah. I'm just interested to know. You're in the business of providing research to various Stanford affiliated companies, correct?
A I'm providing them parameters that are wholly independent from anything that they may need. So I'm looking at global economies, global markets, global products, and based on research, providing an analysis of investment.
It is up to each company, whether it be Stanford International Bank or anybody else, to see how that coincides with their investment philosophy. They don't have to take it as written.
It is -- as I stated when I first presented it,

it's up to them to execute. So my research is unbiased by what an affiliate may or may not have need of.
Q Do you know whether it's important to the bank -- well, let's go back.
Do you review any of the banks -- You said you went to Antigua with your team to review year end statements?
A Uh-huh. That's correct.
Q Did you review any of the -- of the bank documents, the annual report -- Did you get an annual report from the bank?
A I receive it. Do I read it from cover to cover? No.
Q Do you review it before it's published?
A I have in the past, yes.
Q All right. And why do you review it?
A Really, just to edit, just to spell check, if you will, review, look through it.
Q What about other documents put out by the bank, it's monthly reports and quarterly reports, do you review those?
A Yes.
Q You review those in advance of them being published?
A Yes.
Q And why do you do that?
A My team is actually given the information and then my team writes around the information given. So in that capacity, I am editing it. It is then sent to Ron Rodriguez for final review before it is sent out.

Q So your team actually does the drafts of the
monthly and quarterly reports put out by the bank?
A The research reports put out by the bank, not the
financials that are put out by the bank.
Q What information do the reports that you review
include?
A They're going to include just a quick global
economic snapshot. There's, I believe, a section called --
or in the past there has been a section called portfolio
adjustments, which would have discussed why certain
allocation shifts were made.
There is a table in there that discuss certain
numbers of the bank, which I've already stated are provided
by the bank.

BY MR. KELTNER:
Q What's in the table, profit, loss, assets?
MR. SJOBLOM: If you recall.
THE WITNESS: I don't recall. If you have one, I
could confirm it, but --
BY MR. KELTNER:
Q When you say the information comes from the bank,
who do you get it from, information that goes into those
reports we've been discussing.
MR. SJOBLOM: And you're talking about the
quarterly reports now?
BY MR. KELTNER:
Q And monthly.
A It has come from various people. It's come from

Mr. Rodriguez. It's come from the board of directors.
Sometimes I've received information from the accounting
managers. So it's just really the printed --
Q What about Mr. Davis?
A As a board member, yes, in the past I've received
information from him.
Q So when you say the board member, the board -- you
get information from the board. Who do you mean?
A Well, it's varied in the past. Sometimes various
board members, but, certainly, in the past it has also
referred to Mr. Davis directly.

BY MR. KING:
Q Okay. Is liquidity important to the bank's
investment strategy?
A Yes.
Q How do you know that?
A From a past -- and I -- I don't know if it's still
current or not, but from a past investment philosophy of the
bank it states that they're -- they try to maintain at least
10 percent in cash and maintain liquid investments.
Q Okay. Why do they do that?
A I don't know. That's a bank directive.
(SEC Exhibit No. 26 was marked for
identification.)
BY MR. KING:
Q Let me show you what's been marked as Exhibit 26.
A Okay.
Q Take a look at that for me --
A Thank you.

Q -- if you would.
A May I ask what I'm looking at?
Q Well, I'll ask you. Just take a look at it first.
A (Examining)
MR. SJOBLOM: Do you have a copy --
MR. KING: I do.
BY MR. KING:

Q You recognize Exhibit 26?
A Yes, I do.
Q What is it?
A I don't know exactly what it is, but I recognize
it. I'm assuming -- well, I would be assuming.
Q Does this appear to be an internal or an external
document?
A It appears to be internal. You mean produced
internally?
Q No. I mean -- I mean --
A I'm sorry.
Q -- can you tell how this document is used? Is it
used with potential CD purchasers or is it used to -- is it
used internally among the Stanford affiliated companies?
A By the looks of it, I would assume external.
Q Did you say external?
A Yes. From the disclaimer, I would say external.
Q Okay. Let's flip over to page four. I believe
that's your picture there on page four, correct?
A Uh-huh. That's --
Q So you've seen this picture before?

A I have seen this picture before.
Q Routinely used in Stanford marketing materials?
A Not routinely, no.
Q Okay. And this -- on the front cover it says

"Stanford International private banking," correct?
A Yes. That's correct.
Q All right. And then if you flip to the previous
page, page three --
A Yes.
Q -- you see where it says liquidity?
A Uh-huh.
Q It says, We focus on maintaining a highest degree
of liquidity as a protective factor for our depositors?
A Yes.
Q Have you ever heard -- You ever heard that before?
A I have seen it written in the past, yes.
Q Is that consistent with your understanding of the
bank's investment philosophy?
A Yes.
Q Second sentence says, The bank's assets are
invested in a well diversified portfolio of highly marketable
securities issued by stable governments, strong
multi-national companies and major international banks.
Do you see where it says that?
A Yes, I do.
Q Is that also consistent with your understanding of
the bank's investment philosophy?
A Yes.
Q Have you seen that statement before?

A Yes.
Q What does highly marketable securities mean?
A It means they have a market.
Q Give me an example of some highly marketable securities.
A It can certainly include fixed income, equity. It can include shorter redemption notice alternatives and it can really include any product in which there is a strong secondary market.
Q What is a shorter redemption alternative?
A It would mean any alternative that you can put in a redemption request within a quarter.
Q Whether or not that redemption request will be granted?
A Well, you're assuming that if that is the contract, that it will, in fact, be granted.
BY MR. KELTNER:
Q Just for clarity, when you say "alternative," what do you mean?
A Alternative there I'm referring to any noncorrelated asset.
Q Noncorrelated to what?
A To the markets. To an equity market in particular.
Q When you say "equity" -- When you said "equity" in the list of things earlier --

A Uh-huh.
Q -- that doesn't include private equity?
A I said in other markets that could have a strong secondary market, and in that case it could absolutely correspond to private equity as we've already discussed earlier.
Q How much luck did you have liquidating the private equity in tier two?
A Actually, I had luck in liquidating the private equity. Well, I have not liquidated SSM yet. Mainly I have not had to go to that level.
THE REPORTER: I'm sorry. Can you start over?
BY MR. KELTNER:
Q The 400,000,000 that's left, how much of that is private equity?
A Minimal. Less than 5 percent.
BY MR. KOROTASH:
Q How much private equity before the liquidation?
A It was less than 5 percent in tier two.
BY MR. KING:
Q Now, one of the people we talked about earlier that, I think, you said you did not supervise was the senior investment officer, correct?
A That's correct.
Q But did you have occasion to train a former senior investment officer by the name of Michael Zarich?
A I did.
MR. SJOBLOM: Tell you about how she trained him?
MR. KELTNER: Uh-huh.

THE WITNESS: I met with him on the second tier of the portfolio and went through tier two, the list of the portfolio advisors. Actually, a very similar type training, but in much more detail than I went through with y'all this morning.
He sat and met with, at the time, each of my research analysts, who's on the team, went through with them the specific portfolio that they analyzed. I did discuss with him -- and that's when I said I had in the past seen a copy of Stanford International Bank's investment philosophy.
I did -- We read through that together, and he went on a trip to meet a number of our second tier portfolio advisors. We discussed various presentations, various presentation questions.
BY MR. KOROTASH:
Q What do you mean by that, various presentation questions?
A For instance, if I ever presented about the second tier of the portfolio, how are those presentations generally conducted in order to maintain the right of privacy or the regulatory framework of the domicile while at the same time being able to give general information about the portfolio.
Q What was his -- What was his job?
A He was senior investment officer really --
Q Of the bank or --
A Of Stanford International Bank.
Q He was in charge of the investments for them?
A I don't know exactly what his job description was.

Q Well, I'm sorry. How can you train someone if you don't know what they're supposed to do?
A I'm training him on the second tier of the portfolio.
Q Okay. That was your understanding?
BY MR. KELTNER:
Q And that's all you trained him on was the tier two?
A That's all I have knowledge of is tier two.
Q The question you -- or the statement you made a minute ago, I'm trying to clarify that.
A Okay.
Q Was the question more specifically: How do you answer when people ask you how the money is invested? How do you answer a client?
A No. If there is a question about, tell me what -- say, tell me what portfolio advisors in the list of all holdings that you have at Stanford International Bank.
Like I clearly discussed here, I can't do that. Neither could anybody else in that position.
Q So what did you teach or how -- what did you tell Mr. Zurich --
A I said --
Q -- to tell --
A -- diversified portfolio.
Q And what about --
A The portfolio advisors located predominantly in Europe and in North America.
BY MR. KING:
Q Now, just let's start over.

A Okay.
Q Because I need to make sure I'm clear in my own mind.
A Okay.
Q Senior investment officer does what?
A I do not know. I do not know in totality what his job description was --
Q Now, what --
A I did not write it.
Q You had a professional relationship with Mr. Zarich, correct?
A Yes, I did.
Q You also had a personal relationship with --
A Yes, I did.

Q -- Mr. Zurich, correct? And you never discussed what he was doing as senior investment officer?
A We did not have a personal relationship when he was at SIBL.
Q Okay. Since he's been at SIBL, you've never had occasion to discuss with him what he did for the bank?
A I know that he made presentations to financial advisors -- or I don't know. I was told. I know he sat in on client meetings.
Q By "clients," what do you mean?
A By clients of Stanford International Bank.
Q Do you know if they were potential clients or current clients?
A I do not know.

Q Did you and Mr. Zarich discuss the liquidity of the bank's portfolio?
A During training, it is possible that it could have come up.
Q Did you ever tell Mr. Zarich that 50 percent of the bank's portfolio could be liquidated in two days?
A It is possible, yes.
Q Did you ever tell Mr. Zarich that 75 percent of the bank's portfolio could be liquidated in five days?
A I do not recall saying five days, no. It's possible.

MR. SJOBLOM: Can we have some -- When are we talking about here? Are you talking about 2005 or are you talking about now? I mean, there's a lot of difference here of what could be done in 2004, 2005, 2006.
BY MR. KING:
Q In training --
MR. SJOBLOM: -- as opposed to right now.
BY MR. KING:
Q When did you train Mr. Zarich to be senior --
A 2004.
Q Let's do this again. Because we need to do question and answer.
A I'm sorry.
Q When did you train Mr. Zurich to be senior investment officer?
A 2004 or early, early 2005.
Q Who asked you to train him?
A The bank asked me to train him.

Q Who?
A Juan Rodriguez as well as the board of directors.
Q Who on the board of the directors did you speak to about Mr. Zarich?
A Mr. Stanford, Mr. Davis. Among two.
Q Anybody else?
A That I recall, no.

Q During your training sessions, was it multiple training sessions with Mr. Zarich or just one?
A Multiple.
Q How many?
A With me personally, probably five to six, and they would have been long training sessions.
Q Okay. Did you take notes at the training sessions?
A I did not, no.
Q Did he take notes at the training session?
A Yes, he did.
Q How did he take notes?
A Gosh.
Q Did he do it on a --
MR. SJOBLOM: You mean by --
BY MR. KING:
Q -- computer -- Did he do it on a computer or did he do it with a pen?
A I believe with a pen.
Q Okay. Now, during the training sessions, did you discuss with Mr. Zarich the liquidity of the bank's portfolio?

A Yes, I did.
Q During the training sessions, did you tell Mr. Zarich that 50 percent of the bank's portfolio could be liquidated in T plus two?

A Yes, it is possible that I did.
Q During the training sessions, did you tell Mr. Zarich that the bank's portfolio was extremely liquid?
A I do not recall using the words "extremely liquid," no.
Q Did you tell Mr. Zurich during these training sessions that 75 percent of the bank's portfolio could be liquidated in five days?
A I do not recall saying in five days. It's possible that I did. I just don't recall the exact days.
Q Did you tell Mr. Zarich that 100 percent of the portfolio could be liquidated in 60 to 90 days?
A It is possible.
Q Do you remember telling him that?
A I do not recall my exact words --
MR. SJOBLOM: Again, we are talking 2004, Mr. King? Statements made in 2004 --
THE WITNESS: I'm sorry. It's been a while. I don't recall my exact --
BY MR. KING:
Q When did you train Mr. Zarich?
A 2004, 2005. Either the end of the 2004 or the beginning of 2005.
Q Could it have been October 2005?
BY MR. KELTNER:

Q Are you certain about that date, because we think he went to Antigua in early 2006?
A I --
MR. SJOBLOM: Training versus when he went there --
THE WITNESS: Yeah.
MR. SJOBLOM: -- we're talking about two different things.
THE WITNESS: I did not train Mr. Zarich in Antigua at all.
BY MR. KELTNER:
Q Now, did you train him for his move to Antigua?
A I trained him before he left for Antigua, yes.
MR. SJOBLOM: Listen to the question. He said "for." Did you train him for Antigua. You answered you trained him before he went to Antigua.
THE WITNESS: No. I did not train him --
BY MR. KELTNER:
Q Immediately before his move to Antigua, did you have these training sessions?
A How immediate before it was before he left --
Q Was it a couple of months?
A -- I do not recall. It could have been as early as May. I don't recall. I'm sorry.
MR. SJOBLOM: Well, here's the problem. Her's the problem. As to when these statements were made in 2004, they

mean one kind of thing. If it's 2005, it means something else. If you're talking about today, they mean something else. I just want the record clear that this was training of Mr. Zarich at some point in time before he went to Antigua possibly in 2004. Is that --
THE WITNESS: Yes.
BY MR. KELTNER:
Q And if you told us it was late 2005, do you know if that's inaccurate?
A I mean, without looking at my calendar, I couldn't tell you for a fact whether or not it's inaccurate. I believe it was earlier than that.
BY MR. KING:
Q Okay. I think you said that it was possible that you told Mr. Zarich that the bank's portfolio could be liquidated in T plus two, correct?
MR. SJOBLOM: What could be liquidated in T plus two?
THE WITNESS: How much? I'm sorry.
BY MR. KING:
Q The bank's portfolio could be liquidated in T plus two?
A No --
MR. SJOBLOM: The entirety?
THE WITNESS: - not the entire portfolio. I believe --
MR. SJOBLOM: That's not --
THE REPORTER: I'm sorry.
MR. SJOBLOM: That's not what the witness has

testified to. There's been no statement by the witness that the bank's portfolio --
MR. KING: That's what she was asked, but we'll clarify. We'll clarify.
MR. SJOBLOM: -- in T plus two.
MR. KING: We'll give her a chance.
MR. SJOBLOM: You've already gone through 50, 75 and 100.
MR. KING: Okay. Well, let's make it clear. If you didn't hear it, that's --
MR. SJOBLOM: I did hear it, but you're mischaracterizing what the witness said.
MR. KING: Let's clarify it.
MR. SJOBLOM: For the third time?
MR. KING: Yeah. For the third time, you're the only one that didn't hear it the way I heard it.
MR. SJOBLOM: Ask her if she said whether or not the entire bank portfolio could be liquidated in T plus two. Did you ever say such a thing?
THE WITNESS: No, absolutely not.
BY MR. KING:
Q Okay. And why -- why do you say that?
A Because --
MR. SJOBLOM: Why do you say what? Why --
BY MR. KING:
Q Why did you say that the bank's portfolio couldn't be liquidated in two days?
A It would be impossible if the entire portfolio were

in nothing but equities and straight equities to liquidate a portfolio in two days.
Q Okay.
A It's just not possible.
Q So when you were talking -- when you were giving me the percentages earlier, you were speaking only as to tier two?
A I did not give you the percentages earlier.
Q Okay. When I said 50 percent, 75 percent, 100 percent, you were talking about tier two?
A If I were speaking of my own knowledge, it would have been tier two only.
Q What were you speaking about?
A I'm trying to recall the exact text. I mean, you can take anything out of text. And even in the bible it says they were naked and a few chapters later it was good. If you put them together, it's out of text, though. So if you can please tell me the exact text, I'd gladly tell you.
MR. SJOBLOM: Mr. King, can we take a break?
MR. KING: Sure. Let's go off the record.
(A brief recess was taken.)
(Mr. Edmundson and Mr. Korotash not present.)
MR. KING: Back on the record at 3:12.
THE WITNESS: This is Exhibit 26.
MR. KING: Okay. Tom was good enough to find for us a document while we were off the record.
MR. SJOBLOM: You talking about Tom --
MR. KING: Tom Keltner. Correct.
BY MR. KING:

Q Let's go back and clean this -- One of the issues we talked about earlier was your group's draft and review or edit of the monthly reports, correct?
A Well, they're quarterly reports, but, yes.
Q Now, are those monthly reports for the bank?
A Yes. Stanford International Bank client.
(SEC Exhibit No. 27 was marked for identification.
BY MR. KING:
Q Okay. And take a look at Exhibit 27. Is that an example of a monthly report from the bank?
A This one is -- My team did not do this one.
MR. SJOBLOM: What was the question you asked her?
MR. KING: I just asked her if it was a an example of what we've just been talking about, a monthly report from the bank.
(Mr. Edmundson and Mr. Korotash entered the room.)
BY MR. KING:
Q Why do you say your team didn't do that one?
A Because my team did not write this one.
Q Okay.
A It says, Welcome to the first edition. That was different.
(Speaking simultaneously.)
BY MR. KELTNER:
Q Report?
A Yes.
Q Before they were quarterly and now they're monthly

reports?
A That's correct.
BY MR. KING:
Q Okay. Who wrote it?
A I don't know.
BY MR. KELTNER:
Q Did you receive a copy before today? Have you seen Exhibit 27 before today?
A Have I read it? No. Is there possibly a copy on my e-mail or otherwise? Yes, it's possible.
BY MR. KING:
Q All right. Let's take a look at Exhibit 27 a little --
A Okay.
Q -- closer. Second paragraph there says, We want our depositors to know that SIBL has no direct or indirect exposure to any of Madoff's investors.
Do you see where it says that?
A I do see where it says that.
Q Now, the Madoff investments, I take it that's a referral -- I take it that refers to the fraud by Mr. Bernard Madoff that's been in the news?
A Okay.
Q Is that correct? Is that your understanding? Is that your reading of the document? Is that your reading of Exhibit 27?
A I don't know what I'm reading.
MR. SJOBLOM: Do you know to what that refers?
THE WITNESS: I would assume, like you do --

BY MR. KELTNER:
Q Is it fairly obvious?
A Yeah.
Q Fairly obvious?
MR. KELTNER: She said yes.
MR. SJOBLOM: What's fairly obvious?
THE WITNESS: I wouldn't say it's fairly obvious. I would say, like you, I would assume it was referring to Madoff investments.
BY MR. KING:
Q Now, you managed tier two for the bank, correct?
A That is correct. I oversee tier two --
Q Oversee tier two?
A -- do not manage. Oversee. Do not manage.
MR. KING: Sorry about that. That was unintentional.
BY MR. KING:
Q The -- In overseeing tier two of the bank, you review the compiled report from Mr. Palmliden, correct?
A That is correct.
Q Okay. And is there any direct or indirect exposure to Madoff investments in tier two of the bank's portfolio?
A To my knowledge, there is no direct exposure. As of when this report went out, we believed there was no indirect exposure. We did find out after this report was written, there was, like, less than two million dollars, I believe, indirect -- No. Yeah -- would have been less than actually one million of indirect exposure to Madoff. To my knowledge,

that would have been the only exposure.
Q What is the source of that?
A Probably less than 500,000 indirect exposure.
Q What is -- In direct exposure?
A Indirect. No. No direct exposure. Indirect only.
Q And what is the source of this indirect exposure?
A It was through Meridian. Meridian is a fund of funds. Within their fund of funds, one of their fund managers held -- I believe the name of that fund was Tremont, which had invested in Madoff. So it was a very indirect, but we found that out after this report had been published.
Actually, it still has not been confirmed. We believe there could potentially had been a very small amount of indirect exposure.
Q To your knowledge, has Stanford International Bank taken any steps to correct the indirect exposure statement in Exhibit 27?
A We're still trying -- We're confirming it in process. So --
Q How do you go about confirming it?
A We're checking with the manager of Meridian to see how much exposure, if any, was in our class of that alternative.
MR. KELTNER:
Q When did this indirect exposure first come to your attention?
A Probably the end of January.
Q Okay. So before year end 2008?
A No. The end of January --

MR. SJOBLOM: 2009.
THE WITNESS: -- 2009. I didn't know --
BY MR. KELTNER:
Q That's the first --
MR. SJOBLOM: Let's be very clear. She's talking end of January 2009. That report was issued in December 2008.
BY MR. KELTNER:
Q And I want to be very clear on that point.
A Yes.
Q You first learned about Madoff's exposure at the end of January 2009?
A Middle to end of January.
Q Okay. You had no knowledge of Madoff's exposure prior to January 2009?
A That's correct.
BY MR. KOROTASH:
Q How did you learn of it?
A Actually, somebody who had introduced us to Meridian had sent an e-mail saying that there was a possibility that Meridian did have exposure -- indirect exposure to Madoff.
BY MR. KING:
Q Who was that?
A Who sent me the e-mail or who was Meridian?

Q You said who -- who -- You said someone did an introduction. Who was that?
A Oh, Bobby Ellison.
BY MR. KELTNER:
Q Is he the one that sent you the e-mail?
A Yes.
Q You think that was around mid January '09?
A I think so. I'm sorry. I've been traveling since December 26th, so I'm guessing on dates.
BY MR. KOROTASH:
Q Did you bring this to Mr. Davis's attention?
A Yes, I did.
Q And what did he say?
A He tried to confirm whether or not -- that we did, in fact, have indirect. Again, though, if we did, it would have been maybe $500,000.
Q Was there any discussion about the advisability or the desirability of retracting the press release on the company's website that there was no indirect exposure?
A I do not know if there were any.
Q You weren't party to any --
A I was did not party to any of that discussion.
THE REPORTER: I cannot get a clear record. Everybody's talking at the same time.
MR. KOROTASH: Do your best.

THE WITNESS: I said, I did not participate in any direct conversation as to whether or not a reprint should be done.
MR. SJOBLOM: Not a reprint. Mr. Korotash asked

that retract statements from the company's website. Is that what you said, Steve?
MR. KOROTASH: Uh-huh.
MR. SJOBLOM: Was she a participant in any conversation to retract a statement from --
BY MR. KOROTASH:
Q Concerning the desirability or necessity of retracting a press release from the company's website.
A No.
MR. SJOBLOM: Your answer was?
The WITNESS: I was not part of any of those discussions.
BY MR. KING:
Q Okay. If you would flip the page on Exhibit 27 for me.
A Yes.
Q Says there in the second column, first paragraph there, The bank's board of directors made a decision to increase the bank's capital by 541,000,000 --
A Okay.
Q -- on November 28th, 2008. See where it says that?

A I do.
Q What does that mean?
A I don't know. It's -- I don't know.
Q Okay.
A If you can tell me what you believe it to mean, maybe I can clarify it.
Q Where does the -- what does this $541,000,000 refer

to?
A It would mean new capital put into the bank.
Q Where did that $541,000,000 come from?
A I would have to use an assumed word. I would assume by the shareholder.
Q Who is?
A R. Allen Stanford.
Q What's the basis for your assumption?
A Shareholder infusion or shareholder capital infusion. It's not there, but that would be my assumption.
Q Why was this 541,000,000 in capital infused?
A That I do not know.
BY MR. KELTNER:
Q Sorry. I may have missed it. Did you say you had --
A I don't know.
Q You don't know where the money came from?
A Substantive, no. An assumption, yes. I would

assume shareholder contribution.
Q And there's only one shareholder?
A Yes.
Q Robert Allen Stanford?
A Robert Allen -- It's not Robert, by the way. I believer it's Randall. His first daughter is named after him. Her name is Randy, not Roberta. So --
BY MR. KING:
Q How was that capital being used?
A I don't know.
Q Any of it in tier two?

A Based on the date here, November 28th, 2008, no.
Q But you haven't seen an injection of any capital?
A No. There have been no deposits in tier two.
BY MR. KELTNER:
Q Before we entirely leave that subject, just to close the loop --
A Yeah.
Q -- was there any other exposure to Madoff that you're aware of, aside --
A That I am aware of, no -- oh, for Stanford International Bank, I'm assuming?
Q Correct.
A To my knowledge, no.
Q Okay. Were you ever asked to research whether that might be additional exposure to Madoff?
A I was not asked.
Q Did you do --
A I researched tier two, yes.
Q What did you do?
A I asked my analysts to do a scan of their individual portfolios to see if there were any exposure.
Q Okay. And exposure to what?
A To Madoff, alternative funds.
Q Direct or -- Including indirect exposure?
A Direct or indirect.
Q How did you do that? Did you have them look at the list of Madoff investors?
A I had them get -- Well, I had them actually get in

touch with the advisors, to call the portfolio advisors. First, I asked them to scan their portfolios. If there were any questions about the holdings in the portfolios, to then call the portfolio advisor to see if, in fact, we did have exposure there, direct or indirect.
Q Okay. And when did you do that?
A Right after the whole Madoff issue came out on the news, and I do not remember that date. I do remember I was traveling and I was not in the office when it took place.
Q So sometime ago, not recently?
A Yeah. It was sometime ago.

BY MR. KING:
Q Okay. Before we broke, I think we were talking about your -- I think you said five or six training sessions with Mr. Zarich, correct?
A Uh-huh. That's correct.
Q And you did recall having certain conversations with Mr. Zarich about liquidity, correct?
A Yes. That is correct.
Q But it was your testimony that your conversations about liquidity were confined only to tier two liquidity?
A I do not recall whether or not they were based on the overall portfolio or whether there's specific conversations about tier two.
Q What do you know about the bank's overall liquidity?
A Only what I would have been told by the bank or by the board of directors.
Q What have you been told about the bank's overall

liquidity?
MR. SJOBLOM: When?
THE WITNESS: When? Exactly.
BY MR. KING:
Q Date and time. When's first time you ever discussed the bank's liquidity with someone on the board of directors or --

A Probably -- 2001, probably.
Q Okay. What did you talk about?
A Eight years ago. I -- I don't recall. Probably how a -- what the liquidity of the overall portfolio was. As to the exact percentages, I do not recall.
BY MR. KOROTASH:
Q Let's go most recently.
BY MR. KING:
Q We'll do it the other way.
A Well, 2000 -- We can start with 2004. The numbers that Michael set could have very easily been for the overall portfolio or the numbers that I would have been given for the overall portfolio. And given the time of the market in 2004, those are logical numbers.
Q Now, I want to make sure we're clear on this because --
A Yeah.
Q -- before you said for the overall portfolio that that would have been impossible --
A No. What I said is for the entire portfolio to be liquidated at T plus two is impossible.

MR. SJOBLOM: Is impossible?
THE WITNESS: Is impossible.
BY MR. KELTNER:
Q Can you give us a more reasonable number?

A Fifty percent of a portfolio being liquidated in T plus two would have been possible in 2004. That would not be possible today.
BY MR. KING:
Q Okay. Would it have been possible in 2004 to liquidate 75 percent of the portfolio, the bank's entire portfolio, in T plus five?
A I do not know the entire portfolio ever of the bank. Logically, could a portfolio be liquidated 75 percent in T plus five? Yes, it would have been possible.
Q Did you tell Mr. Zarich in 2004 that it was -- that the bank could liquidate 75 percent of its portfolio in T plus five?
A It is possible I would have said that.
Q Okay. Did you tell Mr. Zarich in 2004 that the bank could liquidate 100 percent of its portfolio in 60 to 90 days?
A It was possible that could have been said. I'm sorry. In what days? In --
MR. SJOBLOM: 60 to 90 days.
THE WITNESS: 60 to 90, yes. That is possible I could have said that.
BY MR. KING:
Q When I showed you the brochure that has your picture in it earlier --

A Yes.

Q I think it's Exhibit 26.

A Yes, it is.

Q -- we looked at the sentence that says, Maintain the highest degree of liquidity as a protective factor.

A Is that page three?

Q It's page three. Correct.

A Okay.

Q You see where it says that?

A I do.

Q How is liquidity a protective factor?

A Are you asking for my definition or my personal opinion?

Q Do you understand liquidity to be a protective factor to the bank?

A I can understand how that could be a protective factor.

Q Explain that to me.

A If you have liquidity, that means you can quickly -- Liquidity doesn't necessarily mean cash. It means how quickly assets could be converted to cash. And so if you're in a bank-type situation, liquidity would certainly be important because that's how quickly you can translate holdings into cash.

Q Okay. So why might that be important to a CD

purchaser?

MR. SJOBLOM: If you know. If you don't.

THE WITNESS: I don't know. I could be speculating, but -- I apologize. I'm not a banker.

BY MR. KELTNER:

Q Why might that be important to an investor?

A An investor, in general, it just means how quickly I can get cash out, if needed.

BY MR. KING:

Q During your 2004 training sessions with Mr. Zarich --

A Yes.

Q -- did you tell him that the bank's money -- or that the bank's investment portfolio was managed in three tiers?

A Yes.

Q Is that accurate?

A Yes.

MR. SJOBLOM: Is what accurate, that she said it or that --

BY MR. KING:

Q Is it accurate that there are three tiers?

A Yes.

Q What is tier one?

A Cash. Cash and cash in kind investments.

Q What are the functions of tier one?

A It's cash management.

Q What does that mean?

A It just means you're managing liquid cash and cash

in kind investments.

Q Okay. I think you just said earlier executing wires. Is that one of the roles that --

A Yes.

Q -- that tier one performs?

MR. SJOBLOM: I don't think she said that. It's a mischaracterization.

THE WITNESS: Yeah. No --

MR. SJOBLOM: Tier one does not execute wires.

THE WITNESS: Tier one would not execute wires.

BY MR. KING:

Q Okay. Does -- Does tier one give wire transfer instructions?

A Tier one itself does not, no. Tier one is an investment portfolio.

Q Okay.

A An investment portfolio would be a cash and cash in kind investment. It does nothing outside of that.

Q Okay.

A So that would have been a mischaracterization.

Q When -- Does money ever move between the various tiers?

A Yes.

Q Okay. And when it moves between the various tiers, does it always have to go through tier one?

A I do not know.

Q Did you tell Mr. Zarich that when money moves between tiers, it always has to go through tier one?

A I do not recall saying that it would always have to go through tier one.

Q Okay. When money is placed with a portfolio advisor, does it always have to go through tier one?

A It does not have to.

Q How do you know that?

A I don't. I don't know that it does not have to. I've never seen anything written. Let's put it that way. I've never seen anything written that said it would have to.

Q Does it typically go through --

A Yes.

Q -- tier one?

MR. SJOBLOM: Are you talking about new incoming money? Are you talking about liquidating portfolios and moving money around? What -- What point are you talking about?

It seems by your question that maybe a tier one is unclear to you what it is and how it arises.

BY MR. KING:

Q Yeah. I don't think so. I mean, as I understand her testimony, money, when it goes tier -- goes to a particular portfolio advisor, it typically goes through tier one, correct?

A It typically goes through one of our correspondent institutions, and, generally, those institutions do have tier one cash.

Q Okay. And who are the correspondent institutions?

A I don't know that this is an all inclusive list, but Toronto Dominion --

BY MR. KOROTASH:
Q I'm sorry?
A Toronto Dominion, Bank of Houston and Trust Mark are three of them.
BY MR. KELTNER:
Q And where is Trust Mark based out of?
A I don't know. I'm sorry.
BY MR. KING:
Q What about National Republic?
A I do not know that they are currently a correspondent bank, but I've heard the name in the past as to whether or not they are now. I don't know.
Q What about HSBC?
A We have relationships with HSBC as a firm. As to whether or not those are Stanford International Bank accounts or other accounts, I don't know.
Q Do you have access to balances of cash being managed in tier one?
A No, I do not.
Q Do you know how much money is in -- is with tier one managed institutions right now?
A I do not.
Q Do you know if management and referral fees paid to Stanford Group Company are paid from tier one?
A I'm sorry. I do not.
Q If tier two needs cash from tier one, how do you go about getting it?
A I would request the cash through the board of

directors.
Q Specifically who?
A I would send mine to Mr. Davis. I would send my request to Mr. Davis. What he does with it, I don't know. I don't know if he speaks to the entire board or --
Q Okay. When you say send a request to Mr. Davis, Mr. Davis's office is in Tupelo, right?
A Not always.
Q Okay.
A Sometimes he's in Memphis. Sometimes he's on the road --
Q Okay.
A -- or I might be on the road. So, typically, I would e-mail a request.
Q Okay. In what situations might you request cash from tier one?
A I don't know that I have ever requested cash from tier one.
Q Okay. We talked earlier about the liquidations in tier two, correct?
A Yes. That's correct.
Q And when tier two liquidates an asset, where does it send the cash?
A I send cash to one of the institutions I just mentioned; Toronto Dominion, Bank of Houston, several of them -- Bank of Houston, I believe, or Trust Mark.
Q And how do you know where to send it?
A I request that information from our treasurer.
Q Who is?

A Patricia Maldanado.
Q You ever request that information from Mr. Davis?
A Not the exact institution where to send the cash, no.
Q All right. Let's talk about tier two for a second.
A Okay.
Q What is tier two?
A It's a globally diversified portfolio managed by external portfolio advisors.
Q Who sets the -- I think you told us -- the investment parameters for tier two?
A The board of directors.
Q Okay. And so are those investment parameters then communicated to the various portfolio advisors?
A Yes.
Q How are they communicated to the various portfolio advisors?
A Generally, in terms of -- here's how we see the state of the economy, but as I've mentioned, all the portfolio advisors have discretion, have 100 percent discretion of their portfolios. They do not have to take directives.
Q How do you know that?
A I have been told that's how the accounts were set up, that they have 100 percent discretion.
Q Who told you that?
A Either the portfolio advisor through a copy of the agreement or from a board member.

Q Has any specific board member ever told you that?
A Mr. Davis.
Q Now, if it's okay with you guys, I think at this point -- you provided the Commission with a copy of a presentation that you gave this morning, correct?
A Yes. That's correct.
Q Rather than go through the entire list of portfolio advisors, can we just say that the list of -- will you agree that the list of portfolio advisors that you gave to the SEC this morning is a comprehensive list of the portfolio advisors in tier two?
A Yes. Yes.
MR. SJOBLOM: You mind if we go off the record for a second?
THE WITNESS: Yes.
MR. KING: Let's go off the record.
(A discussion was held off the record.)
MR. KING: Let's go back on the record at 3:40.
MR. SJOBLOM: With respect to what Mr. King asked about the powerpoint presentation this morning by Mrs. Holt, it is certainly a comprehensive list. We'll double check to make sure that it's 100 percent complete.
Also, having mentioned that now, I did agree to provide that to you, but we do have to do that under FOIA, confidential request. I think the way I'll handle it is to make a Bates stamped hard copy, Bates stamped pages, send it to you under a FOIA letter and then maybe return that other one to -- would be the same thing. Agreed?
MR. EDMUNDSON: Let me -- You would like to produce

the slide presentation to the Commission pursuant to FOIA, a FOIA --
MR. KOROTASH: Limited use.
MR. EDMUNDSON: -- limited use of a legend?
MR. SJOBLOM: Yes.
MR. EDMUNDSON: When will you produce that to us?
MR. SJOBLOM: Next couple of days. When I go back to Washington, I'll print it off and get it Bates stamped, submit you a letter.
MR. EDMUNDSON: Don't have a problem. End of the week?
MR. SJOBLOM: Okay.
BY MR. KING:
Q Okay. I want to talk about a few of the people on the list that --
A Okay.
Q -- we've been talking about. I think you mentioned Meridian earlier. That's the group that we discussed with the indirect Madoff exposure, correct?
A That's correct.
Q And the money was invested in Meridian through what entity?
A There was an SIBL -- There was an SIBL investment direct into Meridian.
(Mr. Keltner entered the room.)

BY MR. KING:
Q All right. One of the other entities there on that list is an entity called SSM Venture. You familiar with that entity?
A Yes, I am.
Q Tell me about that.
A It is a private equity firm. They offer private equity and holdings through -- I believe it's an L.L.P. structure or an L.P. structure, and it is a collection of investors investing in private equity.
Q What's the balance of the SSM Venture portfolio today?
A I'm sorry. I'd have to look at the numbers.
Q Roughly.
BY MR. KELTNER:
Q How's it done?
A Actually, I do recall they're up for the year, I believe, by, like, a percent, maybe.
MR. SJOBLOM: What did you ask?
The WITNESS: The number that I had in the presentation was accurate as of 12/31.
BY MR. KING:
Q SSM Venture is located in the same building as Stanford in Memphis, correct?
A That's correct.

Q Is there any affiliation between SSM Venture and Stanford?
A To my knowledge, no.
Q Does Stanford have -- Other than the entities,

Stanford Coins and Bullion, Stanford Asset Capital Management, that have Stanford in the name, is Stanford affiliated with any of the other portfolio advisors on the list?
A No. Unless they have Stanford in their name, no.
Q Okay. I think you said you were recently married, correct?
A That's correct.
Q And what's your husband's name?
A Jim Holt.
Q Okay. Has tier two ever invested any money with your husband?
A Yes.
Q Tell me about that.
A He runs a long/short equity fund, and Stanford International Bank did make an investment in his fund. Given my relationship to Jim, I saw it as a conflict of interest for me to recommend or personally oversee that account. So I had nothing to do with the opening of that account and do not follow it.
Q When was it opened?

A I believe 2006 or 2007.
Q Is it still open?
A It is actually in process of being liquidated.
BY MR. KELTNER:
Q At a gain or a loss?
A At a loss.
Q How significant was the loss?

A I don't know the most recent --
Q Ballpark.
A I don't know. It was probably down 25, 30 percent.
Q For the year or total?
A I believe for 2008, probably, by percent. Believe it or not, we really don't discuss work at home. We have enough finance during the day.
BY MR. KING:
Q What's the name of it?
A CMSU & Associates.
Q Now -- CMS -- You said CMSU --
A Yes.
Q -- & Associates is not on your list, correct?
A No. It should be on my list. I put it on my list -- I don't track it. I don't follow it and I am a signatory or -- anywhere on the paperwork because of the conflict of interest, but it was included on that list.
MR. SJOBLOM: Stop pointing to the screen. You mean the powerpoint --
THE WITNESS: Oh, yeah. The powerpoint. I'm sorry.
BY MR. KELTNER:
Q Who does track it?
MR. SJOBLOM: Who does? Sorry.
BY MR. KELTNER:
Q Track the portfolio.
A The reports are sent to Fred Palmliden.
Q And then does put them in the weekly report?
A Yes, he does.
Q Okay. And you receive the weekly report?

A I do.

BY MR. EDMUNDSON:

Q How much money was your husband given to match?

A I believe the original figure was 20,000,000, or, I believe, it got up to 20,000,000. I'm not sure the actual tranches of cash that were put in. I was not in those conversations.

BY MR. KELTNER:

Q How long has CMSU been in existence?

A I believe eight years.

Q How long has your husband been employed with CMSU?

A He's an original partner of the firm.

BY MR. KOROTASH:

Q Was there any discussion about putting that fund over into tier three to try to take away any of the conflict that might have existed?

A Not necessarily to put it in tier three, no. It was more of a discussion. I did not mind it being placed in tier two. I just thought it was a conflict of interest for me to personally monitor it.

Q You oversee the people that monitor it?

A Yes. But I do not oversee or request any funds to be placed in any given portfolio advisor.

Q Did you have any discussions at all with Mr. Davis concerning the possibility of putting the funds in tier three?

A I asked that he sign the documents and that he oversee it. I didn't care where the placement was. I just

wanted it to be stated that I did not personally make requests as it related to that fund.

Q Again, was there any discussion about placing it with Mr. Davis --

A I don't recall ever -- I don't recall having that conversations.

MR. SJOBLOM: Stop, guys.

BY MR. KELTNER:

Q Do you understand that to mean the top performing funds or the worst performing funds?

A It was among the worst at the end of 2008, and it was also -- it was also in process of being liquidated.

BY MR. KING:

Q Who made the decision to liquidate it?

A Actually, there was a combined effort. I don't have anything to do with it. And given the performance, I made the -- I made the recommendation -- or I brought it up that it should be liquidated due to its performance.

It's a long/short equity fund. Long/short equity funds generally do not -- especially when they're more long than short, generally, do not fair well in market environments like 2008.

Q And to whom did you make that recommendation?

A To Mr. Davis.

Q And he followed it?

A He is liquidating the positions currently.

Q Let's talk about tier two's overall performance. How did tier two do in 2008?

A It was down approximately 30 percent.

Q Okay. What's the balance on tier two currently?

A It's around 350. Probably 350,000,000.

BY MR. KELTNER:

Q How does that compare to the end of '07?

A It was over -- close to or just over a billion.

BY MR. KING:

Q So I take it that the -- it wasn't -- I mean, it's down 30 -- roughly 30 percent, right?

A (Nodding.)

Q And the rest of that percentage would then be covered by liquidations; is that right?

A Majority of it was a result of cash being withdrawn from the portfolio.

Q Okay. Why was cash withdrawn from the portfolio?

A To send to cash and liquidity, and then, I'm assuming, to meet redemptions.

Q How do you know that?

A I don't know it for certain.

BY MR. KELTNER:

Q I assume if you're the investment manager and they're liquidating -- or since you're overseeing the investments and they're liquidating a large portion of what you're overseeing -- overseeing, you never had occasion to ask?

A I asked and I was told that they are raising liquidity.

Q And that was --

A And that's to both bolster -- I mean, when you're

raising liquidity, it's to do one of two things. Either to bolster your liquidity to a certain level or to pay out redemptions. All I need to know is where it goes.

BY MR. KING:

Q What percentage of the bank's portfolio is in tier two?

MR. SJOBLOM: When?

The WITNESS: Yeah. When? Today or --

BY MR. KELTNER:

Q Let's start with today.

A I really don't know. Certainly today, less than 10 percent.

Q I think earlier today you looked at an exhibit that had around eight billion dollars investment portfolio around year end?

A That were around year end and at year end we had approximately four to 500,000,000, then that would be less than 10 percent.

Q In the neighborhood of 5 percent, assuming those numbers are right?

MR. SJOBLOM: Currently?

BY MR. KING:

Q What is -- what's the highest percentage of assets or -- strike that.

What is the highest percentage tier two has ever been with regard to the bank's entire portfolio?

A I know this question (sic) is going to sound like a smart remark, but if you have a calculator, I can give you a percentage, but, otherwise, I couldn't --

BY MR. KOROTASH:

Q Well, give us the numbers. Tell us what your number was and what the bank's number was.

A When the bank was under eight billion, we had -- I'm sorry. When the bank was under eight billion, we probably had close to a billion, and so it would be the calculation. So it's greater than 10 percent, but --

Q Okay. We talked this morning for a few minutes about having to pay penalties during the liquidation phase?

A That's correct.

Q And why was that? I mean, who was charging penalties?

A We were brokering investments that had lock-ups on them. And when you break an investment that has a lock-up in the contract, you're going to pay a penalty if your redemption exceeds a certain percentage or if there is any redemption at all. In both cases we have now broken that. So as a result, we had to pay penalties.

Q Was it your sense these were significant penalties?

A It's not my sense that they are significant penalties, no.

Q Do you have a ballpark idea sitting here what the penalties -- the total?

A In total, no, I don't.

BY MR. KELTNER:

Q You said both of them. Which two investments are you talking about?

A I'm sorry. When did I say both of them?

Q When he asked you about redemption penalties, I think you said in both instances.

A Oh, we were talking earlier. He had asked -- I'm sorry. He had asked earlier if there were any redemption penalties and I had said, yes, that there were. And then he asked again, and I said, yes, that there were. And in both instances I don't know how much they are.

MR. SJOBLOM: Mr. Korotash asked his question this morning --

THE WITNESS: Right.

MR. SJOBLOM: -- and the question today --

THE WITNESS: Right.

MR. SJOBLOM: -- in both of those instances --

THE WITNESS: Yes. Yes. So in both instances of the question I still don't know.

BY MR. KELTNER:

Q Which advisors do you know charged you liquidation fees?

A The advisors themselves would not have charges liquidation fees. The holdings that those advisors owned would have charged liquidation --

Q Sort of like a fund of funds --

A Yeah.

Q -- type structure?

A Yeah.

Q So an underlying fund --

A So an underlying manager or a -- a fund that would have been within a portfolio would have charged fees, not the portfolio advisor. So it's not a double set of fees to liquidate.

BY MR. KOROTASH:

Q I think I asked you this morning about whether or not you had any discussions with Mr. Davis regarding the desirability of, perhaps, getting funds from tier three to use for the needed purpose rather than incurring these penalties.

Did you have any discussions along those lines?

A No, I did not have those discussions with Mr. Davis.

BY MR. KELTNER:

Q Did you tell Mr. Davis that liquidating these assets would result in penalties?

A I honestly do not recall if I told him. I do recall telling him that it could take time to liquidate --

Q Do you know --

A -- these holdings.

Q Do you know if Mr. Davis was aware that the penalties would be incurred?

A I do not know if he were.

BY MR. KOROTASH:

Q And sitting here now --

A Uh-huh.

Q -- do you think it might have made some sense from an economic standpoint to get money from the large tranche

that's tier three rather than incur penalties?

A Not necessarily. I don't know, and it doesn't necessarily make sense.

Q Okay.

BY MR. KING:

Q Did you participate in a meeting with analysts in mid November last year in St. Thomas -- could have the island wrong -- St. Croix?

A Actually --

MR. SJOBLOM: What was the question?

THE WITNESS: Actually, he's right. It is St. Thomas, and, no, I was not in that meeting. He asked there were -- did I participate -- or were I in a meeting in St. Thomas in November.

I was not in that meeting. I was elsewhere. I don't recall now where I was.

BY MR. KING:

Q Did you participate in the meeting remotely?

A I dialed in for a quick conference call with the team. I did not stay on the line the entire time during that meeting.

Q Okay.

MR. SJOBLOM: When? November 2008?

MR. KING: Yes. Mid November 2008.

BY MR. KING:

Q There was a trip to St. Thomas, right?

A There was a trip to St. Thomas.

Q What was the purpose of the trip to St. Thomas?

A It was our mid quarter investment meeting.

Q Okay. Who went to the meeting?
A My -- A large quorum of my team. As to exactly who was there, I would have to go back and check travel vouchers.
Q Okay. Was it mid November?
A Yes. You're correct. It was mid November. It was around November 15th.
Q Okay. And you dialed in for some portion of the meeting?
A Yes, I did.
Q Did this question that Mr. Korotash posed a moment ago come up in the meeting, why not liquidate tier three rather than tier two?
A That question has come up. Whether or not it was at that precise time, I don't know.

Q How has it come up?
A No. That was a question that was asked. The question is -- Well, what is your question? Did the question come up during that meeting or has that question ever been asked?
Q Well, I think you said you didn't remember whether it happened at that meeting?
A Right. Has the question been asked? Yes.
Q By whom?
A One of my analysts. I don't remember which one.
Q What was your response?
A My response was tier two is the more liquid portfolio, and that while there may be cash in tier three, it was, most likely, already called for.

Q Okay. Without knowing the assets that are in tier three, how do you know that tier two is more liquid than tier three?
A Because I had asked at a point in time -- I don't remember the exact date -- what tier three assets were.
Q Who did you ask?
A Mr. Davis.
Q What did he say?
A He told me private equity and real estate.
BY MR. KELTNER:
Q And when was that?

A I just said I don't remember.
Q Five years ago? Six months ago?
A It would have been probably within the last three to six months.
BY MR. KING:
Q Were you surprised to learn that tier three was in private equity and real estate?
A I wouldn't say surprised.
MR. KELTNER:
Q Why do you laugh?
A Surprised is just a humorous term. I'm sorry.
BY MR. KING:
Q What was your reaction?
MR. SJOBLOM: There's been a lot of laughter in here today, Tom. So --
BY MR. KING:
Q What was your reaction --
A I can quit if you would like.

BY MR. KING:
Q Let me do the question, then you'll do the answer, okay, so we can be clear.
What was your reaction to Mr. Davis's statement that tier three was private equity and real estate?
A I don't think I had a reaction. I had asked a question and been given an answer.

BY MR. KOROTASH:
Q I'm sorry. What was the remark Mr. Davis made in terms of -- you said -- was there a primarily here or what percentage are we talking about?
A I did not ask percentages. I just asked what some of the holdings of tier three were. I don't think it's all -- I don't know that it's all inclusive, but the answer that was given to me was that there were private equities and real estate holdings in tier three.
BY MR. KING:
Q What percentage of tier three at year end -- or in, let's say -- let's say in fourth quarter 2008 was in private equity?
A I don't know.
BY MR. KOROTASH:
Q But you have the sense, obviously, there was a significant percentage to the extent that you couldn't ask him for -- to -- you told the analysts that that wasn't a feasible idea to get money from tier three.
A I -- I was responding only to cash in the portfolio of tier three. I was responding only to cash.

BY MR. KING:
Q I want to -- I want to ask the question again because I want to --
A Okay.

Q -- make sure we're on the same page.
What percentage of tier three was invested in private equity in the fourth quarter of 2008?
A I do not know.
Q Did you ever have occasion to ask Mr. Davis what percentage of tier three was private equity in the fourth quarter of 2008?
A My recollection is no. I mean, it's -- My recollection, as it is just a tier three or just in the portfolio, how much is in private equity, I do not recall.
Q What percentage of the total portfolio was in private equity during the fourth quarter of 2008?
A I don't know.
Q Were you ever asked by a financial advisor to determine how much private equity was in tier three?
A Not that I recall.
BY MR. EDMUNDSON:
Q Do you know who manages the assets in tier three?
A I know it's overseen by the board of directors.
Q Including Jim Davis?
A Yes.
BY MR. KOROTASH:
Q Jim is on the board of directors or managing the assets?
BY MR. EDMUNDSON:

Q My question was "managed."
A Oh, I'm sorry. I do not know that Mr. Davis is actually managing tier three.
Q All right. Do you have an understanding of who oversees the assets in tier three?
A It's overseen by the board of directors.
Q And your testimony here today is you don't know what the assets of tier three are?
A That's correct.
MR. SJOBLOM: That's not what she said.
THE WITNESS: Well --
MR. KELTNER: New question.
MR. SJOBLOM: Wait a minute. That's a mischaracterization.
MR. EDMUNDSON: Let me rephrase.
MR. SJOBLOM: She said she knew or was told there's private equity and real estate.
MR. EDMUNDSON: Fair enough. I appreciate that. That was a bad question.
The WITNESS: Thank you.
BY MR. EDMUNDSON:
Q You don't oversee the assets in tier three?
A I do not oversee the assets in tier three.
Q And your testimony here today is with specificity you don't know what the assets are in tier three at the

moment?
MR. SJOBLOM: No. That's not -- It's a mischaracterization again. You're talking about percentages or allocations. She said she's -- private equity and real estate.
BY MR. EDMUNDSON:
Q Let me take each one of those.
A Okay.
Q I was -- I thought I could generalize it for specificity. You don't know what the allocations are in tier three, do you?
A I do not know what the allocations are in tier three.
Q You don't know who the portfolio advisors are in tier three, if any, are used at all?
A I do not know.
Q You don't even know that there are any assets in tier three, do you?
A I do know they are assets in tier three.
Q How do you know that?
A I have been copied on some e-mails as it relates to holdings in tier three.
Q What did those e-mails say?
A There's several e-mails. Some are talking about drawdowns on cash for private equity investments. Actually, all of them are discussing drawdowns or investments into private equity.
In no case is it -- that I recall is it an initial investment, so, generally, as agreed upon in a previous

report or in a previous agreement.
BY MR. KELTNER:
Q A private equity fund identified by name?
A Yes.
BY MR. EDMUNDSON:
Q If you wanted to have information regarding the assets of tier three as the chief investment officer of Stanford Financial Group, who would you go to?
A I would go to the board of directors.
Q And within the board of directors who would you go to?
A Actually, if I wanted to know about tier three, I'd probably go to all of them or I would, at minimum, go to the investment committee.
Q Okay. And who would you ask on the investment committee?
A I would ask Mr. Stanford and Mr. Davis.
Q Who would you ask on the board by name?
A I would ask Mr. Stanford and Mr. Davis.
BY MR. KING:
Q Okay. I hate to ask this question since it's a good segue. We were talking about the investment committee earlier.
You are aware that the bank has an investment committee, correct?
A I am aware of that --
Q Who constitutes the bank's investment committee?
A I believe it to -- Without referring back to that

list that you gave me earlier, I believe it to be Mr. Stanford or Allen Stanford, Mr. Davis and O. Y. Goswick.
Q What's your basis for that belief?
A Gosh, years with Stanford. I mean, it's -- I don't -- I don't recall where I was when I first got that information, whether it was through a phone call, a question, a meeting. I don't recall, but that is who I believe it to be.
Q Who is O. Y. Goswick?
A He's a board member of Stanford International Bank.
Q What's his background?
A I do not know his background.
Q Where's he live?
A I think, Texas.
Q Have you ever made presentations to him as a member of the investment committee?
MR. SJOBLOM: She's already testified she has.
MR. KOROTASH: That's off the record.
MR. SJOBLOM: No. No earlier today.
MR. KING: Okay. I forgot.
MR. SJOBLOM: As long as it's consistent.
The WITNESS: I have not made a presentation solely to the investment committee. I have made presentations to the board of directors.
BY MR. KOROTASH:
Q Did Mr. Davis ever advise you in 2008 what the percentage of -- of the bank's assets were comprised of real estate and private equity?
A It is possible that we could have had that

conversation. As to percentages or even ballparks, I don't really remember the conversation much less what the percentages would have been.

MR. SJOBLOM: Just for clarification, you are talking about tier three only or tier two -- put together private equity and real estate?

BY MR. KOROTASH:

Q Either one.

A Tier three, no. No conversation has been known to allocations.

Q Did he ever advise you in writing of the percentage?

A Not that I recall.

Q Did you ever advise anyone else in the company what the percentage of real estate and private equity amounted to?

MR. SJOBLOM: In tier three?

THE WITNESS: Tier three or overall?

BY MR. KOROTASH:

Q Either one.

A In the entire year of 2008 it is possible, but I would assume out over all portfolio allocations.

MR. SJOBLOM: As a matter of fact, I think there was a slide this morning that talked about overall. No?

THE WITNESS: No.

MR. SJOBLOM: SBIL allocations combined?

THE WITNESS: That would have been tier two only --

BY MR. EDMUNDSON:

Q That spreadsheet that we saw this morning was only

tier two.

A That's correct.

BY MR. KOROTASH:

Q So as you sit here now, do you have a -- do you have sense during 2008 of what the overall -- overall percentage was of real estate and private equity?

A I'm sorry.

Q Don't be sorry. I hate that.

A I would have to look.

Q A ballpark.

A I can't even give you a ballpark. I'm afraid if I have you a ballpark, I would simply be misleading you.

BY MR. KELTNER:

Q Where would you look?

A I would have to look through my archive e-mails to see if I ever sent out an e-mail that discussed parameters of a portfolio or the investment -- can't think of the word I'm looking for.

BY MR. KELTNER:

Q I think Steve's question may have been, sitting here today, do you know what it was at year end.

MR. KOROTASH: Uh-huh.

BY MR. KELTNER:

Q Do you know what it was now? And so I was asking, where would you have to look to get that answer?

A I would have to look at my e-mail or past meeting notes to see if I had ever received it or written it down.

MR. SJOBLOM: You're asking about private equity and real estate allocations in either T three stand alone or

T plus two to today?

MR. KELTNER: Right.

THE WITNESS: Tier three I can unequivocally say I do not know.

BY MR. KELTNER:

Q Okay. You don't know tier three and you don't know the total either, correct?

A It's possible that I could have been given total numbers.

Q Okay.

A So it's very possible I could have had said, okay. Total cash for the portfolio is this. In fact, there's an SIBG quarterly report if you look at the breakdown of the pie. So, yes, obviously, at some time received overall portfolio allocations.

As to how it was classified, for example, private equity, is it classified as alternative? Is it classified as equity? It could be classified either way.

So do I know exactly how much is in private equity? No. To my knowledge, I do not know and I would have to go back to past correspondence just to try to find it.

(SEC Exhibit No. 28 was marked for identification.)

BY MR. KING:

Q Ms. Holt, let's look at Exhibit 28.

A Yeah. Okay.

Q You recognize Exhibit 28?

A I do.

Q What is it?

A It's the Stanford International Bank quarterly report.

(Interruption to proceedings.)

BY MR. KING:

Q What was your role in preparing Exhibit 28?

A I edited it.

Q Okay. Would that include the pie charts on page four?

A I didn't -- The only thing I would have done as it relates to the pie charts on page four is to add the numbers to make sure they equal 100.

Q Okay. Who provided the data that makes up the pie charts on page four?

A I received the pie charts from Mr. Davis. I am assuming he received it from the board of directors.

Q You received it from Mr. Davis?

A I received it -- Actually, I believe it was actually sent directly to my analyst. It did not go directly to me, that I recall.

Q How does -- The pie charts here are --

A Uh-huh.

Q -- are aggregated tier one -- I mean -- excuse me -- for all tiers, right?

A That's correct.

Q Tier one, tier two and tier three?

A Yes. That is correct.

Q Okay. So you have knowledge of tier two --

A Uh-huh.

Q -- before you drafted this, correct?
A Uh-huh. That's correct.
Q And to do an aggregated report, you need knowledge of tiers one and three, right?
A That's correct.
Q But Mr. Davis doesn't send that information to you. You send tier two to him, correct?
A That's correct.
Q And how do you do that?
A There's a compiled weekly report. So at the end of the quarter, Fred Palmliden would send to Mr. Davis the -- like on this case -- the September 30th weekly report that would have all these breakdowns in it.
Q You send it directly to Mr. Davis?
A Yes. He sends it directly to Mr. Davis. Fred sends it directly to Mr. Davis.
Q Okay. Looking here at page four --
A Uh-huh.
Q -- of Exhibit 28, let's look at the pie chart on the top left-hand corner, if you would.
A Okay.
Q And just do some definitions for me.
A Okay.
Q What is fixed income?
A Fixed income investments, bonds, corporate bonds,

sovereign debt, could be convertibles.
Q How do you know that?
A That's just the definition of fixed income.
Q It's a commonly used definition --
A Yes.
Q -- of fix income?
A Uh-huh.
Q Okay. What about alternative investments?
A It would be noncorrelated instruments. It would include some private equity funds possibly in tier two. They could include some real estate. Generally, it's referring to alternative funds; long, short, global, macro, et cetera --
MR. SJOBLOM: Global, macro.
THE WITNESS: And it can also include futures options forwards.
BY MR. KING:
Q Okay. Now, how do you know that Mr. Davis's definition for alternative investments in tier three is the same as your definition of alternative investments in tier two?
A I don't know.
Q So that's dependent on Mr. Davis?
A That's correct.
Q Because he is the one pulling together the aggregated numbers?

A That's correct.
Q What about cash equivalents? Is that tier one?
A It would also certainly include tier two. I know we had -- we had cash in tier two. So it could include any

liquidity any through tiers one, two or three.
Q And equity, what's that?
A It's any security listed or nonlisted.
BY MR. EDMUNDSON:
Q Common definition?
A Common definition is any security listed or nonlisted.
BY MR. KING:
Q Okay. What's an example of the nonlisted securities?
A It would be private equity. An individual private equity holding not a private equity fund, generally.
Q Okay. So I thought you said that tier two is private equity was under alternative investments.
A That's because tier two's private equity are in private equity funds.
Q Okay. And --
A And not individual holdings.
Q Okay. How do you know that the private equities in the equity piece of this pie chart is different?
A I don't. I said that's a general definition.

Q All right. So how do you know that private equity is included within equity?
A I don't. I said it was a general definition. The general definition of equity is any security listed or nonlisted, any corporate security listed or nonlisted. So --
BY MR. KELTNER:
Q When you say --

A -- that's the general definition.
Q When you say -- when you say individual private equity, do you mean private placements? You mean investments in individual companies?
A Yes. I mean investments in individual companies as listed or nonlisted. In our case, obviously, nonlisted.
BY MR. KING:
Q Are you aware of anywhere that -- the bank discloses that the term "equity" includes these investments in individual companies?
A I do not know.
Q Now, are these -- So these are -- These investments -- Help me out here. I don't do private equity world.
A Okay.
Q These individual investments in private companies, it's -- it's nothing fancier than Stanford taking it's money, investing it in a company?
A To my knowledge, that would be correct.

Q Okay. Are you aware of whether or not Stanford -- Now, what are the terms of those agreements?
A I do not know the terms of those agreements.
Q Typically, have you ever seen one of these agreements?
MR. SJOBLOM: Are you asking whether there's difference between a PPM or private placement memo?
MR. KING: Yeah. I'm asking her if she's ever seen any of these agreements where --
THE WITNESS: For Stanford International --
BY MR. KING:

Q Yes.

A -- Bank?

Q Yes.

A To my knowledge, I have not. Like I said earlier, I have been copied on e-mails. I cannot say that they did not include anywhere in there had I dug through the e-mail any of those agreements, but they didn't relate to my portfolio. I didn't bother going through them.

MR. SJOBLOM: "By agreements," are you talking about the offering memorandums, the private placements? Is that what you're asking about?

MR. KING: Yeah. I mean, if that's what she's --

BY MR. KING:

Q Are there -- Are there offering memorandums for these investments?

A I don't know.

Q You've never seen one?

A To my knowledge, no. That's why I was saying, they may be buried into one of these e-mails that I haven't uncovered. So --

Q So how do you know that these are individual investments in private companies rather than private equity would better fit under alternative investments?

A I don't know. I stated that already.

Q That was Mr. Davis's decision to include it there, correct?

A It would have been the board of directors. I received the information from Jim, but I do not know -- Jim

Davis -- I do not know if that's something he did on his own or if that were information given to him by the board of directors.

Q Would -- How would you characterize the liquidity of these investments in individual companies?

A I don't know. I'd have to know the individual companies.

MR. SJOBLOM: At what point in time?

THE WITNESS: Yes. Absolutely. The point in time would make a huge difference.

BY MR. KING:

Q Okay. What's your understanding of when private equity became part of the tier three asset allocation?

A You know, I honestly do not know when private equity became part.

Q Do you recall telling Mr. Palmliden that tier three had moved to private equity and real estate in recent years?

A I don't recall saying that it had moved. I know I possibly said that it has held private equity and real estate in recent years.

MR. SJOBLOM: May I interject? Since I sat in on the interview with Mr. Palmliden, that's not what he said. He said that in recent years it may have been more or an increase, not that it moved from one to the other. That's not what he told the SEC examination person if that's where you're getting that information. That was like four or five days ago.

MR. KELTNER: Do you have notes to that effect?

MR. SJOBLOM: I will find out.

MR. KING: This is what happens. Let's talk to the witness and we'll talk offline.

BY MR. KING:

Q The -- Do you recall in your -- having a meeting with the analysts in mid December?

A I have numerous meetings with my analysts.

MR. SJOBLOM: Sorry?

THE WITNESS: I have numerous meetings with my analysts. So --

BY MR. KING:

Q Okay.

A But, yeah, I'm sure I had a meeting with them in mid December.

Q Okay. And remember back to Mr. Korotash's question about why not liquidate --

A Uh-huh.

Q -- why not liquidate tier two. You said that -- that came up at some point. You weren't sure when --

A Yes.

Q -- correct?

A Yes. That is correct.

Q Do you recall telling the analysts that a big portion of the bank's portfolio is invested in private equity and real estate?

A I don't know that I've ever uttered the words "a big portion." I could have said, a portion of the assets are allocated. I could have -- I don't know what I said. I do not recall saying "a big portion."

BY MR. KELTNER:

Q Anything like that?

A I would have said that there were funds allocated toward private equity and real estate.

MR. SJOBLOM: When was this meeting?

THE WITNESS: In mid December.

MR. SJOBLOM: December of 2008?

THE WITNESS: Yes.

BY MR. KING:

Q Do you recall saying at that meeting that only a small percentage of the tier three assets were invested in equities?

A It is possible that I could have said that, yes.

Q How did you know that?

A It was really more of an assumption from a conversation with Mr. Davis.

BY MR. KOROTASH:

Q When was that conversation?

A Mid December.

Q And where did that conversation take place?

A I believe in Tupelo.

Q Okay. Was it just you and Mr. Davis?

A Actually, it was more of a passing meeting.

Q Okay. Hallway meeting?

A Yeah.

Q What was it that he said that caused you to infer that only a small percentage of assets were in equities?

A I don't recall exactly.

Q Was it something like only a small percentage of

the assets are in equities?
A No, I do not believe that is the case.
Q Well, you drew that conclusion. What did he say?
A I really --
Q Think hard on this one because, obviously, you draw that conclusion from a conversation with Mr. Davis.
MR. SJOBLOM: Well, let me just interject.
MR. KOROTASH: That's okay. She's okay. She's thinking.
MR. SJOBLOM: Is that your word "small" or --
THE WITNESS: I do not --
MR. SJOBLOM: -- is that Mr. Korotash's word?
THE WITNESS: I don't recall --
MR. KOROTASH: Those were her words just a minute ago.
THE WITNESS: I don't recall saying a small allocation to equity. I said I possibly could have said it. I do not recall saying it. I do recall saying that a portion of tier three was in private equity and real estate.
BY MR. KELTNER:
Q He gave no sense as to what the -- allocation was?
MR. SJOBLOM: Sorry?
THE WITNESS: I do not recall giving --
BY MR. KELTNER:
Q When she talked to the analysts, did she convey

anything about the relative size of the private equity and real estate?
A I do not recall. I mean, I don't mean to -- I'm not trying to mislead you, but do you-all understand how many meetings I hold and how many words are spoken to ask me to remember exactly what I said on a specific date is almost humanly impossible to remember my exact words. I'm sorry. I cannot recall.
MR. KOROTASH: Let's go off the record for a second.
(A discussion was held off the record.)
MR. KING: We're back on the record. It's 4:25.
BY MR. KING:
Q You had a meeting with analysts in mid December 2008, correct?
A Yes.
Q Do you recall saying at that meeting that only a small percentage of tier three was in equities?
A I do not recall saying that only a small percentage were in equities, publicly-traded equities.
Q The question that Mr. Korotash asked earlier about -- and that was ultimately posed by the -- your analysts as well was: Why not liquidate tier three rather than tier two because it's a bigger portion of the assets, correct?

A That was not the question that --
Q What was the question?
A -- my analysts asked me.
Q What was the question your analysts asked you?

A To the best of my recollection, it was: Why are we -- is there no cash in tier three to pull rather than liquidating tier two. The question was not whether or not to liquidate tier three.
And my response is: There may be cash in tier three, but if they are private equity holdings, you would have to assume the cash there is already spoken for, that you would be breaking commitments if you moved that cash.
Q And how did you know that?
A It was an assumption on the fact that there is private equity in tier three.
Q But you don't know how much?
A I do not know how much.
Q So how do you make that assumption without knowing how much private equity is in tier three?
A It's just a valid -- just a valid assumption that if I'm liquidating assets over here -- if I had cash over here that could be committed to liquidity, I would have already moved it.
Q Would you consider private equity a marketable security?

A When?
Q Today.
A Today? Probably not.
Q During the fourth quarter of 2008, would you have considered private equity to be a marketable security?
A Let me rephrase. It's always a marketable security. Is it a highly liquid security? So is it highly

-- Is that your question? Is it highly liquid or is it marketable? Those are very different questions.
Q What's the difference between being highly liquid and marketable?
A "Marketable" means there exists a market on which I could liquidate it. "Liquid" means how difficult is it to convert the holdings into cash.
Q Okay. Now, we've talked about highly liquid and marketable.
A Correct.
Q Now, what about highly marketable?
A That's also an issue. Highly marketable is going to depend on how large the market is that would purchase the -- that would purchase the holding regardless of how much they were willing to pay for it.
Q Okay. Highly marketable. Is private equity highly marketable today?
A Today? I would say is not highly marketable today.

Q In the fourth quarter of 2008, was private equity highly marketable?
A I think it could have been.
Q How so?
A Private equity was getting cheap. Cash balances on corporate balance sheets was very high. Tobin's Q ratio is currently at a negative, meaning that it's currently cheaper to go out and buy a company than to buy its assets and replicate its business model.
So, actually, given Tobin's Q ratio for the fourth quarter of 2008 Tobin's Q ratio thus far, the first quarter

of 2009, and given the amount of cash, there's what, an 86 percent jump of cash to market cap. So given the high levels of cash, the Tobin's Q ratio, I would say, it is potentially highly marketable -- so I'm going to change my answer -- for fourth quarter and first quarter just based on research.

Q Okay. Was it highly liquid in the first -- or just say today?

A It is only as liquid as corporations are to release the cash on their balance sheets. So given the amount of cash on balance sheets, it could be liquid.

Q But not highly liquid?

A But not highly liquid, but it depends on how much they're willing to pay for it.

Q Okay. Would private equity have been highly liquid in the fourth quarter of 2008?

A I would assume again that it would have been liquid because, again, it depends on how much people are willing to pay for it. And, keep in mind, liquidity is converting it to cash. So when you're converting it to cash, then it's dependent on how much people are willing to pay for it, not whether or not it's marketable.

BY MR. KELTNER:

Q Trying to see if I understand you. Are you saying that -- if you reach the right price, it's liquid? In other words, if they're willing to take a big enough hair cut it becomes liquid?

A Absolutely.

Q Okay. So it's not --

Pendergest-Holt_Laura_20090210.txt

A I mean, that's not necessarily what I'm saying, but your -- your answer to the question is also accurate.

Q Okay. And so, again, to clarify this discussion that you had just with Mr. King about private equity. Are you talking about individual companies or private equity funds?

A I'm talking about individual companies at this price. Private equity funds are --

(Interruption in proceedings.)

THE WITNESS: Sorry. That was not intentional. Private equity funds --

MR. KING: Let's go off the record for a minute.

(A brief recess was taken.)

BY MR. KELTNER:

Q Okay. We had a brief recess to clean up a spill. Before we took the recess, we were talking about the different -- the conversation you just had with Mr. King --

A Uh-huh.

Q -- and I think we, you know, cleared up that you were talking about private equity in individual companies?

A Yes.

Q Okay.

A That is correct.

Q Okay. And you were starting to draw a distinction between that and private equity funds.

A A private equity fund is going to be a number of investors who have made commitments to a select group of individual private equity. Given to how funds are structured, depends on whether or not they could open that to

Pendergest-Holt_Laura_20090210.txt

new investors.

Going to also depend on whether they had incorporated a secondary market in which one -- a current investor could sell to an investor in a secondary market for that fund.

So it's going to certainly be different for a private equity fund versus an individual investment that required -- regardless of either you're going to have capital commitments on the table.

MR. SJOBLOM: Can we go off the record for a second, please?

MR. KOROTASH: Yes.

(A discussion was held off the record.)

MR. KING: Let's go back on the record. It's 4:40.

BY MR. KELTNER:

Q Just real quickly to tie up --

A Yeah.

Q -- what we've been talking about before this. To liquid a private equity fund interest, what do you need?

A I need a secondary market.

Q Okay. Do you also need the consent of the general partner, typically?

A Generally, yes.

Q Because the private equity fund agreement typically doesn't provide for redemptions actually, correct?

A I don't know. I think that's dependent on the private equity fund.

Q But, typically, it's been your experience that you

Pendergest-Holt_Laura_20090210.txt

need the consent of a general partner?

A Typically. That is correct.

Q Okay. And earlier we were talking about selling your -- SIB's interest in private companies?

A Yes.

Q What's involved -- what do you need to do to sell your interest in private companies --

A As I just mentioned, you would go to the market in private equities. You would put your holdings out and see if a corporation is willing to pay for it --

Q How do you --

A -- or how much.

Q How do you put your holdings out?

A I'm not a private equity specialist.

Q Have you had occasion to liquid under the private company tier two?

A Have I? I don't have any individual holdings in private equity or tier two.

Q It's all private equity funds?

A Yes. That is correct.

BY MR. KING:

Q Okay. Talking about tier three --

BY MR. KOROTASH:

Q While Michael's working up that question, let me ask you: You've got about 15 to 20 hours --

A Yes.

Q -- one of the responsibilities is to sort of monitor the folks that manage the money, mostly overseas, but some in the United States --

A Of tier two. Correct.
Q Of tier two. They sort of keep track of things; they compile monthly reports, that type of thing?
A Yes.
Q How many people does Mr. Davis have working for him doing that same thing, defining that analyst oversight function?
A I have no idea.
Q Do you know of any?
A Anybody who is named specifically to do that? No.
Q For tier three?
A I don't know.
Q Does that strike you a little strange?
A No.
MR. SJOBLOM: Strike what as strange?
The WITNESS: Does it strike me as strange that he does not have individual analysts overseeing tier three?
BY MR. KOROTASH:
Q Uh-huh.
A Is that your question?
Q Yeah. You've got 20 for tier two, don't you?
A That's not all they do.
Q That's right. But they do do that. They do have an oversight function.
A But when I first started, I did it all myself.

Q But then they started to grow?
A But not to oversee tier two.
Q What's that?
A But not to oversee tier two.
Q But tier three is how much bigger? We established that already, haven't we?
A Let's separate the question. Did I grow my team to oversee tier two?
Q Not to grow your team. You grew tier two?
A Those things were completely separate occasions. In fact, my team didn't start even looking at tier two until probably 2004.
Q You have any idea -- Do you have any idea at all if anyone helps Mr. Davis with tier three?
A I do not, no. I have no idea.
Q You guys office, basically, next to each other for the most part and you've never said to him, Hey, who manages this monster over here, tier three?
A No. In all sincerity --
Q Yeah.
A -- my job doesn't really have anything to do with the bank except for what it is for tier two.
Q Yeah. You're managing -- You're managing a good portion of its money --
A I'm not managing. I'm --

MR. SJOBLOM: So the answer to his question is no.
THE WITNESS: That is right.
BY MR. KOROTASH:
Q You've never bothered to ask?

A I never bothered to ask.
Q You're not even interested in what's in tier three; is that right?
A I have asked and I think that shows interest.
Q And what did he say?
A At the last meeting was there were private equity and real estate holdings.
BY MR. KELTNER:
Q Did you ever ask if you could help oversee tier three?
A No. My hands are -- It may not sound like it by the list I gave you, but my hands are really full in other areas. I don't need to oversee tier three just to have something else to do.
Q So you and your team have your hands full with tier two?
A We do so much more than monitor tier two. The powerpoint that I showed you today, SIM, takes hours and hours and weeks and days of research. I could double my staff and we would still be overworked in terms of research.
This is something that takes a portion of a day to compile reports. That is a minor, minor portion of what my analysts' time is spent doing. The last thing I need to do is increase their workload by incorporating tier three.
My team -- Just to finish answering the question, my team was never increased because of tier two.
BY MR. KOROTASH:
Q That wasn't my implication.

A It was increased to carry out research functions.
BY MR. EDMUNDSON:
Q We looked at, I believe it was, Exhibit 28 earlier, and there was a snapshot in time for the bank products. The total assets of the bank as of 9-30-08 were basically 8.5 billion dollars.
A 9-30-08?
Q 9-30-08?
A Okay.
Q What is the last report that you've received about the current total assets of the bank?
A It would have been the December 30th report -- December 31st report that I received from --
Q I didn't know if it was on that spreadsheet earlier today --
A Oh, I'm sorry.
Q -- but do you know what the total assets of the bank are at the last report that you've seen internally?

A The last report that I've seen internally is the monthly report that I was given a copy of.
Q And that is for December or January?
A I believe that is as of December.
MR. SJOBLOM: Also, are you asking about --
MR. EDMUNDSON: Yeah. Let me be clear. I want to know what the total assets of bank are now.
MR. SJOBLOM: No. I got you, but are you talking about a consolidated basis or are you talking about --
MR. EDMUNDSON: Well, let me --
THE WITNESS: Total assets?

MR. EDMUNDSON: Yeah. Total assets of SIB --
BY MR. KELTNER:
Q A minute ago when you said the last monthly report you had seen --
A This is the last monthly report that I have seen --
MR. SJOBLOM: Hold it, guys. One at a time.
THE WITNESS: Exhibit 27.
BY MR. EDMUNDSON:
Q All right. And what's the date on that?
MR. SJOBLOM: Now, he's got a quarterly report.
THE WITNESS: This is December 2008.
BY MR. EDMUNDSON:
Q Got it.
BY MR. KING:

Q What safeguards are there with respect to the assets in tier three?
A I don't know. I can state it as many ways as you would like me to. I don't know about tier three, other than what I've already shared with you in about 20 different ways.
Q Have you ever participated in any kind of audit for the bank's portfolio of assets?
A No. Any audit for SIBL would have been done at the bank.
Q And that would have been done by whom?
A Internal as well as external audit.
Q Okay. Who is external audit?
A CAS Hewlett & Company.
Q Who is the principal at CAS Hewlett?

A It was Mr. Hewlett.
Q Why do you say "was"?
A Because he recently passed away.
Q Who is it now?
A I don't know.
Q What was your interaction with Mr. Hewlett?
A I had no interaction with Mr. Hewlett.
BY MR. EDMUNDSON:
Q Did you ever meet him?
A I had met him once.
Q When?

A Two, three years ago in Antigua.
BY MR. KING:
Q What role do you play in external audit?
A I do not play any role in external audit, other than -- I do, as I said earlier. I reconcile at the end. I make a listing from December 31st all of our holdings by country, by currency, by advisor and by type of holding in a spreadsheet and then I make sure that that spreadsheet reconciles back to 12/31 numbers, and then I turn in that information to accounting. And whether or not that's used in audit, I'm not sure, but it is certainly provided.
Q Who in accounting do you give it to you?
A I gave it to SIBL's accountant. I'm sorry. His name has completely slipped my mind.
BY MR. KOROTASH:
Q Who's the new auditor?
A I don't know his name. I don't know who -- It's still CAS Hewlett & Company. As to who --

Q If there's anybody really there?
A No. Good God. Of course, there's people there.
Q Good.
A I hope you're being sarcastic --
MR. SJOBLOM: Of course he is.
THE WITNESS: -- there's a chartered and certified accounting firm out of the London and approved by the ETC group.
BY MR. EDMUNDSON:
Q Have you ever met anybody else other than Hewlett from this firm?
A Yes, I have.
Q How many people have you met?
A I have met three people from --
Q And was that within the last couple of years?
A Yes.
Q But that was not in connection with audit work that they were doing?
A I don't know. They were at the bank when I met them on one of my visits. It was a, oh, hi, Laura. This is so and so and so and so from CAS Hewlett. I'm horrible with names, so, please, don't ask me to remember those.
BY MR. KING:
Q If Stanford International Bank told investors that the bank's portfolio of assets were overseen by a network of financial advisors, would that be accurate?
A To my knowledge, yes, that would be accurate.
Q Now, when you say "to my knowledge," why do you say

to your knowledge? Is it accurate or is it not accurate?
A I don't know. I just see one tier of the portfolio. So if somebody told me that, to my knowledge of SIBL's portfolio, that is accurate.

MR. SJOBLOM: You're referring to the portfolio managers around the world. A net -- what is that crazy -- a network of what.
BY MR. KING:
Q A global network of financial advisors managed the portfolio. Is that true or false?
A That's correct.
Q As to tier two?
A Yes.
Q That's the only thing you know about?
A That's correct.
Q You don't know if there's a global network of financial advisors that manage tier three?
A I do not know.
BY MR. KELTNER:
Q Would it be accurate or inaccurate to say your team of analysts in Memphis oversees all the bank assets?
A That is a horrible inaccurate statement.
MR. SJOBLOM: Horribly inaccurate?
THE WITNESS: Inaccurate. My team sees only tier two.
BY MR. KELTNER:
Q And you're crystal clear on that, right?
A I am absolutely 100 percent crystal clear on that one statement.

BY MR. KING:
Q Okay. I want to hit a couple of issues since we're short on time. What was your involvement with the Stanford allocations strategies program?
A They were given -- They were given the SIM parameters just like everybody else. Outside of that, I really didn't have any dealing with them.
Q Okay. Did you supervise Mr. Parish?
A No.
Q So if Mr. Parish says there was a dotted line to you as far as his supervisor, that would be inaccurate in your view?
A That is not accurate.
Q Did you ever become aware that there were certain reporting problems with regard to SAS, historical reporting of its results?
A I don't have dealings with SAS, no. My only dealing with SCM would be to provide them research.
Q You said SAS?
A Any of Stanford Capital Management, which SAS is a product. My only interaction is to provide research.
Q So you were never notified of any performance reporting or problems with regard to SAS?
A To the best of my recollection, no.
Q Okay. I want to show you one other thing here.

A Okay.
Q I'm just going --
A Okay.
MR. SJOBLOM: I got to go.
BY MR. KING:
Q All right. Let's look at Exhibit 8 real quick.
A Okay.
Q Do you recognize Exhibit 8?
A Yes.
Q What is it?
A It is a ten-year investment portfolio performance. So it's the portfolio performance of the overall Stanford International Bank portfolio.
Q Does Exhibit 8 have a disclaimer at the bottom?
A Yes. I --
Q And would the disclaimer be something that would typically be included on an internal or external document?
A Generally, external.
Q Okay. Now, I'd like to direct your attention to two years here.
A Okay.
Q 1995 and 1996.
A Yes.
Q You see those two years?
A I do.

Q It looks like Stanford International Bank --
A Uh-huh.
Q -- managed those years to the 100th of a place, 15.71. Do you see that?

A I do see that.
Q How is that possible?
A Well, two things. First of all, as I stated, my start date with Stanford was June 2nd of '97. So I have no idea how the portfolio was managed during those two years.
From a mathematic standpoint, just looking at it, the only way I can see it would have been possible -- there are several ways. Certainly, set returns. So when I say if had this return, regardless, I'm taking my profit or if you were doing -- or if you were clipping coupons off of fixed income.
And in '95 and '96 it would have been possible to have clipped pretty high coupons, and that's only way it would have been possible.
Q Do you see that as a likely outcome to manage down to the 100th of a decimal place as a mathematician?
A As a mathematician --
MR. SJOBLOM: I think she already answered the question. She just said from a mathematician standpoint. She answered it.
THE WITNESS: Yeah. It is possible.

BY MR. KING:
Q The question was: Is it likely?
A Likely? No. Possible? Yes.
Q Okay. As a mathematician, how would you characterize the odds roughly of managing a portfolio out to the 100th of a decimal place?
A I would say improbable.

Q Improbable?
A (Nodding.)
BY MR. KELTNER:
Q Were you ever asked to explain that anomaly to anyone?
A No.
Q Did you ever hear an explanation?
A No.
MR. SJOBLOM: Okay. Mr. King, I got to go.
MR. KOROTASH: Okay. We're leaving the record open.
MR. KING: Let's go off the record.
(Whereupon, at 4:55 p.m., the examination was adjourned.)
* * * * *

PROOFREADER'S CERTIFICATE

In the Matter of: STANFORD GROUP COMPANY
Witness: Laura Pendergest-Holt
File Number: FW-02973-A
Date: Tuesday, February 10, 2009
Location: Fort Worth, Texas

This is to certify that I, Donna Raya, (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

______________________ ______________________

(Proofreader's Name) (Date)

U.S. SECURITIES AND EXCHANGE COMMISSION

REPORTER'S CERTIFICATE

I, Jacci Walker, reporter, hereby certify that the foregoing transcript consisting of 166 pages is a complete, true, and accurate transcript of the testimony indicated, held on February 10, 2009, Securities and Exchange Commission, 801 Cherry Street, 11th Floor, Room A, Fort Worth, Texas. In the Matter of: STANFORD GROUP COMPANY.

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

Date:______________________

____

Official Reporter

Diversified Reporting Services

Testimony

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. FW-02973-A
STANFORD GROUP COMPANY)

WITNESS: Steve Riordan
PAGES: 1 through 218
PLACE: Securities and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, Texas
DATE: Wednesday, February 11, 2009

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

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

APPEARANCES:

On behalf of the Securities and Exchange Commission:
D. THOMAS KELTNER, ESQ.
Division of Enforcement
Securities and Exchange Commission
801 Cherry Street, 19th Floor
Fort Worth, TX 76102

On Behalf of the Witness and Stanford Financial Group:
STEVE RIORDAN, PRO SE

C O N T E N T S

WITNESS:	EXAMINATION
Steve Riordan	10

EXHIBITS:	DESCRIPTION	IDENTIFIED
29	Subpoena	6
30	E-mail	57
31	3/20/07 e-mail	109
32	Spreadsheet	109
33	Final spreadsheet	111
34	E-mail	149
35	Composite Report	155
37	SAS Replacement Journal	172
38	Zephyr Style Adviser	177

P R O C E E D I N G S

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

purposes of this proceeding.

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

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

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

THE WITNESS: No.

MR. KELTNER: Prior to opening the record, I also gave you copy of the Formal Order of Investigation including a few amendments thereto that the amendments essentially add additional staff including myself to the investigation. The Formal Order will be available for your examination during the course of this proceeding.

Do you have any questions regarding the Formal Order?

THE WITNESS: No.

MR. KELTNER: Since you're not represented by counsel today, there are certain things that I need to highlight for you, some of which are identified in Exhibit 23. You have the right to be accompanied and represented and advised counsel. This means that you may have an attorney present and that your attorney can advise you before, during, and after your examination here today. Do you understand this right?

THE WITNESS: Yes.

MR. KELTNER: Since you're not represented by counsel, again, there are matters discussed in Exhibit 23 that I want to highlight for you. Do you understand that upon your request these proceedings will be adjourned so that you may obtain counsel?

THE WITNESS: Yes.

MR. KELTNER: Do you understand that the statute set forth in Exhibit Number 1 provide criminal penalties for knowingly providing false testimony or knowingly using false documents in connection with an SEC investigation?

THE WITNESS: Yes.

MR. KELTNER: Do you understand that you may assert your rights under the Fifth Amendment of the Constitution and refuse to answer any question which may tend to incriminate you?

THE WITNESS: Yes.

MR. KELTNER: And again, typical formalities that we have to go through.

Before we went on the record, I also gave you for your review a copy of the cover letter and what I believe to be a subpoena that was sent to you. I am marking that document now.

MR. KELTNER: Let's go off the record for two seconds.

(A brief recess was taken.)

(SEC Exhibit No. 29 was marked for identification.)

MR. KELTNER: Let's go back on the record at 10:03. Sorry for the brief interruption.

So I was saying I'm going to mark a copy of the subpoena that we have given as an exhibit. Let me go ahead and mark that as Exhibit 29. Okay. If you could look at Exhibit 29 briefly, and identify for me. And we'll do that several times today. I may hand you a document and ask you what it is.

THE WITNESS: Exhibit 29 is my subpoena to appear here today.

MR. KELTNER: Okay. And so that's a copy of the subpoena pursuant to which you are here today?

THE WITNESS: Yes.

MR. KELTNER: Okay. Let's talk a little bit about document production. We met informally for an interview in Boston a few weeks ago. And at that interview I think you voluntarily produced some information. Actually, we ended up giving you a subpoena that day, but then the Exhibit 29 also sets forth specific documents requests.

I believe you have tendered all relevant documents to the staff, but I want to go ahead and establish that just for the -- just for the record. So when we met in Boston we gave us, I think, an image of a hard drive and then files off of another computer; is that correct?

THE WITNESS: I provided the hard drive that was correct so -- that had all Stanford files on it and then I went back to my home office and I pulled every hard copy of every Stanford document that I had on file in my home office and came back the next day or a few days later and provided that.

MR. KELTNER: Okay. So between the computer files that we have from your two computers and the hard document production, do we have everything responsive to the subpoena that you're aware of?

THE WITNESS: Yes.

MR. KELTNER: Just briefly can you describe the search that you did?

THE WITNESS: The home office search, I have about four places where I store documents, one file cabinet with two drawers and then two boxes. And I went through all four places and pulled every file folder with Stanford marked on the folder. I'm relatively organized, so I'm pretty confident that you have everything.

MR. KELTNER: Okay. Were there any documents that you intentionally withheld for any reason?

THE WITNESS: No.

MR. KELTNER: Do you know of any documents called for by our subpoena that were in your possession at a prior time that were lost, destroyed or otherwise disposed of?

THE WITNESS: No.

MR. KELTNER: And again, just to formalize

some of our discussions in Boston, I think the -- was it the day that you came in you discovered that one of your hard drives had crashed?

THE WITNESS: Yes.

MR. KELTNER: Okay. So that was -- which laptop was that?

THE WITNESS: The Gateway.

MR. KELTNER: Okay. So the laptop hard drive had crashed, what -- did you first discover that the day of testimony?

THE WITNESS: Yes.

MR. KELTNER: Okay. Okay. We obviously took -- took that hard drive. Have you received a copy of it back yet?

THE WITNESS: Not yet.

MR. KELTNER: Okay. Just a few more background questions.

Have you ever had occasion to testify before the SEC before?

THE WITNESS: Never.

MR. KELTNER: Okay. Any informal interviews besides ours?

THE WITNESS: Never.

MR. KELTNER: Okay. Any other regulators?

THE WITNESS: No.

MR. KELTNER: Like FENRA anyone like that?

THE WITNESS: No.

MR. KELTNER: Okay. Just for the record, we have to ask these questions.

Do you have any criminal history, any arrests, convictions, anything like that?
THE WITNESS: No.
Whereupon,
STEVE RIORDAN
was called as a witness and was examined and testified as follows:
EXAMINATION
BY MR. KELTNER:
Q Let's talk a little bit -- I think before we went on the record you mentioned a friend of yours Mr. Stys?
A Yes.
Q Okay. I want to kind of go through and talk about other witnesses you've had contact with recently. Let's -- Are there others? Other potential folks involved with Stanford Capital Management?
A I don't know who -- who is considered a witness versus not a witness.
Q Yeah. I maybe misspoke in saying witness.
Let's say just people connected with Stanford Capital Management.
A Yes.
Q Okay. And are you still doing work on a contract basis for them?

A Yes.
Q And are you still doing, I guess, audit work on their quarterly performance numbers?
A Yes.
Q Okay. So in that context you obviously have ongoing communications?
A Yes.
Q Let's start then to narrow it down with former Stanford employees. Aside from Mr. Stys, who have you been in contact with?
A No one.
Q Okay. No contact with Mr. Parrish?
A No.
Q Okay. And is Stys S-t-y-s?
A Yes.
Q Okay. Just tell me about a little bit about your recent discussions with Mr. Stys.
A Well, we -- you know, obviously, are trying to speculate as to what's going on. You know, just natural I think curiosity as to, you know, what's happening. And so he tells me a little bit about his contact with the SEC, and I tell him a little bit about, you know, what types of questions that I'm being asked and, you know, my answers, and that type of thing.
Q Okay. I assume there was not an attorney present at any of these communications?
A No. Purely friendly.
Q Okay. Since you're not here with counsel today I may ask that question from time to time, but to the

extent there was an attorney involved in any communications, please let me know whether it's on the Stanford side or with respect to any individuals.
Are you -- Are you aware of any communications you've had recently that would have involved an attorney?
A Not unless there was attorney on the line unbeknownst to me.
Q Okay. But no one who represented you?
A Right.
Q Okay.
A I inquired if Stanford wanted to provide me with an attorney.
Q Uh-huh.
A And they never got back to me with a definitive answer, and as you can see here they decided not to. And I certainly wasn't going to reach into my pocket for an attorney.
Q Sure. They're costly.
Who did you ask at Stanford about potentially hiring counsel?
A Rhonda Davis and Shenna George.
Q Okay. And I understand -- Are they both in the compliance group?
A Correct.
Q Okay. Do you know what their titles are?
A I think Rhonda Davis is the -- is the head of compliance for -- for Stanford Capital Management or

Stanford Group Company. I'm not really sure.
Q Okay. And Shenna George is one of her subordinates?
A Exactly.
Q Okay. Look, I know this is a little bit uncomfortable to ask these questions, but it's part of what we do.
So what have you and Mr. Stys talked about in terms of your speculation about what this might be about?
A Well, I think we speculated about the -- the bank CD. Neither one of us were ever really permitted much transparency --
Q Uh-huh.
A -- to that CD, so we -- we speculate, we kid about what it might or not might not be. Neither one of us ever made it down to Antigua. I certainly wanted a free trip down there, it never happened. We talk about the performance track record, especially, you know, some of the -- or primarily the numbers that were reported prior to both of our arrivals. I came on the scene only a handful of months, if that, after Mark Stys was hired by Stanford. He -- He hired me pretty much right away, and we started work on, you know, fair and accurate representation of performance.
So, you know, we talk about what happened prior to our arrival and how -- you know, had there been more hours in the day, maybe we would have done more to go back further in time and look at those numbers too.

But we never did that.
Q Okay. We'll obviously go through the timeline in a little bit more detail, but since you talked about Mr. Stys coming in, was that in, what, mid 2006?
A Correct.
Q Okay. And you were hired fall --
A November of '06.
Q Okay. I think I may have seen some preliminary conversations in October of '06. You may have started talking to him?
A Absolutely.
Q Okay.
A My contract started November 3rd, 2006.
Q Okay. Okay. And did you-all have any -- what -- what specific conversations have you had about the -- with Mr. Stys about the pre-2006 track record. Is that -- when you say before your time, do you mean pre-2006 track record?
A Right. And actually we did end up going back to 2005 and -- and creating a track record back to the start of '05 so that they would have a three-year track record as of the end of '07.
Q Okay. So when you're talking about speculating about times prior to your involvement, do you mean 2004 and prior years?
A Those are -- I would consider 2004 and historically to the -- the '04 year would be numbers that, you know, I haven't touched, I haven't looked at,

haven't analyzed. So, yeah, those are the numbers that we -- we discussed.
Q Okay. Did you and Mr. Stys come to any conclusions regarding problems with the pre-2005 track record?
A Well, I think we both agreed that we don't really know, you know, what was being represented. I think -- you know, our -- our -- our understanding is that it's model performance. We don't know really any of the details.
Well, I mean, I can't speak for Mark, but basically what he is telling me and, you know, speaking for myself is that we don't really know how they were calculated, what they represented and if -- and if a guy like me were to come in, you know, and recalculate what I -- you know, would I get the same number.
Q Okay. To lay the groundwork for our later conversation, this might be a good time to talk about types of performance. You referenced model performance. So in your own words, when you say "model performance," you know, what do you mean?
A Model performance to me is a theoretical model. Something you can put up on a white board or in an Excel spreadsheet and calculate returns based upon what the model holds, you know, over a period of time.
Q Okay. And just to clarify, because I know the industry reports these things in a lot of different ways, or has historically. When you say "model performance," do you mean an actual model that you track on a

go-forward basis, or do you mean model performance with the benefit of hindsight? In other words, model performance sitting here today and then calculating what your returns would have been in prior periods?
A I think it could be interpreted as either one of those.
Q Okay. Do you know -- when you say Stanford was using model performance in prior periods whether that was a model calculated today and then the results were -- the historical results were generated based on the model today? Is that your understanding of their model performance?
A I can't say. I don't know.
Q Okay.
A I don't know how they did it. And -- And that again going back to my conversations with Mark that's what we speculated about, one of the things that we speculated about.
Q Okay. Is how they generated the numbers they generated?
A Exactly.
Q Okay. And I think we talked in Boston a little bit about the fact that, for example, I think in the growth model in some of the early years the claimed track record was, you know, 18 percent in one year where the market was down 9 percent. Is that the kind of thing that would cause you to at least want to look into the results to see how they had, you know, managed to beat

the market by 27 percent?
A Yes.
Q Okay. And I -- And I think when we talked in Boston that you said, you know, with the benefit of hindsight you would see that kind of thing as a red flag now?
A Yes.
Q Okay. And why is that?
A Well, now that I have had three years to see how they do perform relative to the market, you know, that would be significant out performance, so as a practitioner and just as someone that has a genuine intellectual curiosity for, you know, investment results, I would -- I would definitely want to examine it further. You know, especially having now the benefit of hindsight.
That said, Stanford pays me at a per hourly rate, so trying -- in the interest of being efficient and accomplishing what they hired me to do, never -- never pulled the covers back on those numbers.
Q Okay. Again, we'll kind of go though the timeline in a little more detail here in a minute.
But I know when you first got on the scene you did some kind of preliminary, you know, back-of-envelope-type analysis of the model numbers; is that correct?
A Yes.
Q Okay. Did you ever do anything like that preliminary back-of-the-envelope review for pre-2005 periods?

A No.

Q Okay. Did you ever ask for data so that you could do so?

A No.

Q Okay. Okay. Let's go through other possible communications you've had with other witnesses. Have you spoken with Mr. D'Amto since we talked in Boston?

A No.

Q Okay. Have you spoken with Mr. Comeaux since we talked in Boston?

A No.

Q Any other senior individuals with Stanford Management Company or Stanford --

A I don't know if Rob Baker qualifies as senior, but I was just at his wedding last weekend.

Q Okay. And Rob Baker is the gentleman that you recruited to help run the internal performance reporting at Stanford Group or Stanford Capital Management.

A Originally Rob subcontracted under -- under my consulting firm to help me with the Stanford projects, and then he flipped as a full-time Stanford employee and is now managing directing of performance and reporting.

Q Okay. Have you had any conversations with Mr. Baker about the SEC investigation?

A Yes. You know, not that dissimilar from --

from Mark. You know, in that we -- well -- but I think with Rob the conversation is a little bit more focused on, you know, he and I making sure that we both feel good about what we did when we arrived on the scene. And I know that Rob is very confident in everything from our arrival forward.

And we kind of laugh about the past because we really just had nothing to do with it. So those are -- that's -- that's the gist of my conversations with Rob is past versus present or from our arrival forward versus our arrival, you know, pre -- or predated our arrival.

Q Okay. So does he have any concerns about personal exposure?

A No.

Q Okay. I think we'll come back to some of that a little bit later.

Any other, you know, senior folks at either of the broker/dealer advisory firms that you have talked to recently?

A I haven't spoken to anyone.

Q Okay. What about e-mail correspondence?

A None.

Q Okay. Okay. Let's go ahead and go through just a few brief background facts just to establish your credentials. Can you tell me about your education?

A Sure. I have a bachelors in finance from U Mass Amherst, I have the CFA designation and the CIPM designation, which is a certification in investment

performance measurement.

Q Okay. Who -- What body provides those certifications?

A Both the CFA and CIPM are designations from the CFA Institute.

Q Okay. And how long have you had those designations?

A I received the CFA charter in 2000 and the CIPM in 2008. The CIPM has only been around about two years.

Q Okay. What year did you get your bachelor's degree?

A '94.

Q Do you have any other licenses?

A No.

Q Okay. You're not a CPA?

A No.

Q Okay. So just quickly walk me through your work history post college?

A Sure. I started in 1994 with State Street Bank and Trust and I was there for ten years, several different departments; mutual funds, master trust, public funds. Eight out of those ten years, I was in a performance measurement role either as an analyst or as a manager of analysts.

Then I went on to Investors Bank and Trust, IBT, and I was their director of performance measurement for three years, and then I started my own performance measurement consulting firm so -- after about

13 years in the business, 11 years in performance measurement I saw a need for performance measurement expertise in the consulting world. So that's why I started the firm.

Q Okay. What kind of work did you at IBT more specifically?

A Well, I had a team of about 16 people that provided custody bank performance reporting for all types of custody bank clients and all types of assets and full service reporting, meaning we did expos risk, we did attribution, performance measurement, GIPS compliance.

So basically, you know, a very comprehensive performance measurement reporting group with, again, all different types of clients. Any client of the bank could be a client of the performance group. And these clients invested in all asset types, and we provided every type of reporting that, you know, is pretty much imaginable under, you know, performance management reporting umbrella.

Q Okay. Let's talk about how you -- what prompted you to leave IBT. That was your most recent employer before your consulting?

A Correct. I was working, you know, ridiculous amounts of hours, really did not like my boss. And, you know, I just -- I had wanted to start my own businesses for many years.

Q Okay. Again, we have to ask these kinds of questions just to, you know, get background. You know, if we were to get your HR file, would there be any issues, anything like that, any performance issues or any, you know, claims of misconduct, anything like that?

A No, absolutely not. I think my record -- my -- my corporate work record is stellar. When I left IBT, I gave them five weeks notice, which I thought was very generous. I would never do that again.

And, you know, there are several senior folks above my boss's level who I think I had an appreciation for my relationship with my boss, and all those individuals pretty much begged me to stay.

Q Good. Okay. So how did the consulting business come to be? How did that get started?

A Well, you know, it really fell into place. I -- Ironically enough I guess -- I guess it's coincidentally as my hard drive crashing on the day of my SEC testimony. I got a call from Mark Stys' wife, Carolyn Stys exactly three days after I had submitted my resignation, so I was prepared to bartend, wait tables, do whatever it took, you know, until I figured out what my next move was. So the performance consulting business wasn't, you know, at the top of my list the day I quit. It was -- It was floating around in the background, but it wasn't like this is, you know, real or feasible.

So when Carolyn Stys, who I worked with at IBT, we were involved in several client presentations together, prospect presentations trying to recruit business at IBT, we got a little bit of familiarity with each other. She knew that I knew my stuff when it came

to performance measurement.

So when her husband went to Stanford and started recruiting, he was recruiting for a performance measurement manager he asked his wife to reach out to her network and see if she knew anyone. So she called me. And so she set up a meeting between Mark and myself, and we talked about what, you know -- what he was trying to accomplish at Stanford.

We talked about whether I knew anyone that would be a good fit. And, you know, the conversation came -- kept coming back around -- pardon me -- to that I would be a great fit, but the snag was there was no way I was going to move to Houston. And so we -- I can't remember exactly whether it was his idea or my idea -- I think it was my idea -- that said, well, why don't you let me help you as -- on a consulting basis, and in the meantime I will search -- or I will help you with your search to find a full-time person.

And, you know, his sense was pretty urgent that they weren't feeling too good about the performance numbers that were being reported at the time and they really needed somebody that knew operations like I did that could get in and make some quick fixes and get the train back on the track.

So it worked out great. And, you know -- so Stanford became my first client. So like I had said before, I had -- I had given five week's notice, and during that time I started to do little things to get my business set up, you know, talked with Mark about getting

a contract for an initial three-month engagement.

And, you know, come the end of my five weeks notice at IBT, I took a week off and then pretty much started working for Stanford on a consulting contract basis almost immediately.

Q Okay. A minute ago you made a reference to getting the train back on the track. What had Mr. Stys told you at the outset about, you know, what the issues were? What you needed to come in help with?

A Well, Mark didn't have, you know, the real detailed understanding that I was able to gain after about a month on the ground. His sense was that they were using several different performance reporting platforms both at, you know, headquarters in Houston and then also at some of the other offices around the country.

And so his -- his, you know, elevator speech to everyone in my first early days, is we brought Steve in because we have seven different performance reporting platforms. They really had three, but he thought there was seven. Because he would hear things from different -- and maybe different -- different shops in the Stanford network were maybe using something that we didn't know about or never really, you know, did due diligence on. We knew people were, you know, dabbling with spreadsheets and.

You know, the -- the short story is they were producing numbers from a variety of different

applications, and the two guys that they had in the operation at the time were not performance savvy, you know, they didn't have the performance background, and they were struggling with why the numbers didn't match, how they could get, you know, the numbers to match, or which system should be the, you know, book of record as far as the performance number goes.

So that was one of my first orders of business was to figure out what's the best system, what system is going to satisfy the largest percentage of, you know, Stanford clients that -- that need performance reporting. And then, you know, get everybody going in the same direction on that system.

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

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

And so Pershing offered two -- you know, Pershing based systems for performance reporting. One is called Lockwood, and I can't recall the other name of the other Pershing performance system. But essentially, you got the Lockwood system if you were signed up for

Pershing managed accounts and everybody at the custody bank got the other Pershing, you know, performance system, or could report performance results from this other Pershing system.

Q Okay. And which products are -- were being run through these performance systems? In other words, what were you looking at?

A That's a good question. At the time I still was -- was trying to get my arms around what all the different investment programs were at Stanford, but essentially it's everybody that had custody at Pershing could receive performance from one of the three. There was definitely a much smaller subset of accounts that were on Advent, because Advent incurred an additional cost.

Q Okay. So Advent is the third-party service provider?

A Correct.

Q Okay. And so how was -- was the additional charge on a per client basis?

A Per account.

Q Okay. So for every account they ran through -- Stanford ran through Advent they incurred additional fees?

A That's correct.

Q Okay. So when they first got there -- when you first got there, were they trying to steer accounts -- or leave accounts on Pershing if they could to avoid the cost?

A Well, that's a good question. You know, the way it -- they were doing things when I got there didn't make a whole lot of sense to me, it didn't appear that there had been a very good plan as to which accounts were on Advent versus which accounts were not.

I mean, I literally spent probably a week with the guy that was in charge at that time, Jose Flores, trying to figure out his -- the method to his madness as to -- because he had the power, essentially, to add accounts to Advent. So typically Advent had a little bit more robust reporting than Pershing.

So if an adviser from anyone of the Stanford offices called up Jose and said, I want my account to get Advent reporting, he would call up Advent and have the account added.

Q Just so we're clear, when you refer to performance, are you referring essentially to account statements that were going to clients?

A Correct.

Q Okay. What about the tracking of performance for the purposes of, you know, marketing, advertising, I? Know that eventually you went to composites, and that was part of your role was to compile composites for '06. Well, eventually '05 forward, correct?

A Correct.

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

A Right.

Q But what -- what to your knowledge were they doing in terms of performance reporting, you know, in -- in terms of pitch books or, you know, what they were providing in terms of -- composite may not be the right term, but in terms of, you know, figuring out the global performance as opposed to individual performance.

A I knew very little, if anything. My sense was that they were using the model returns that were calculated in the investment advisory group by Ken Johnson. I never saw any pitch books or marketing materials, but my understanding -- that could be the only source that would have been for the marketing, because Jose was running around trying to get account level performance right. So any type of compilation coming out of his -- you know, off of his desk was highly unlikely.

Q Okay. So before you came in, to your knowledge, there was no composite performance?

A Correct.

Q Okay. And now be a good time to stop and define composite performance.

A Sure. Composite performance is, you know -- is sort of the fundamental basis for the CFA Institute, GIPS performance presentation standards, which is GIPS is Global Investment Performance Standards. So in order -- as one of the many components for a firm to claim GIPS

compliance there is a composite construction element, and essentially you construct a composite of account level or account level portfolios that all subscribe to the same or similar investment strategy and you compile a composite calculation based upon an aggregation of those underlying accounts at an either equal weighted or asset weighted calculation methodology.

Q Okay. And when you compile the composites for Stanford, did you do it on a weighted average basis?

A Yes.

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

A Beginning of a period.

Q Beginning of the period. And then just took a weighted average and that would be the return for each asset class?

A Each strategy, each -- each composite that I constructed, correct.

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

A Yes. Yes. We built six -- initially, there were six main strategies that we built composites for that had the bulk of the assets in the SAS program, and those were SAS growth, SAS EFT -- I'm sorry. SAS alternative, SAS income, SAS balance growth, SAS balanced income, and SAS income. Was that six? Did I repeat myself?

Q It's okay. We can -- hopefully we'll -- I've got a couple of exhibits that we can kind of go through that may -- that we can nail those all down.

Since we started down the GIPS compliance path, I think one of the things we talked about a lot in Boston with the process for selecting accounts for a given strategy and how accounts might be included or excluded from the final calculation of the composite. From a GIPS compliance standpoint, one of the rules on that, I think I have read something about you've got to be able to say that you include -- what is the threshold of -- of accounts managed? I think I have read somewhere that you have to -- at some -- at some point you have to include all the accounts; is that correct?

A In order to claim GIPS compliance, every account -- every discretionary account must be included in a composite. Every account in the firm as you define it, so the firm has, you know, some leeway in how they define themselves as a firm, but every discretionary account within that firm needs to be in at least one composite.

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

A Yes.

Q Okay.

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

the table with a million dollars and say, okay -- or let me make this really simply.

They come to the table with a million dollars worth of IBM stock, and they, okay, I want to be in the SAS growth program, but I want you to keep half of my portfolio in that IBM stock and the other half of my portfolio can go into SAS growth, that by definition would be nondiscretionary and excluded.

Q Okay. But any discretionary account that is supposed to track the strategy would be included under GIPS in some calculation; is that correct?

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

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

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

A Yes.

Q What do you mean by that?

A Well, you know, it's just the nature of the game in performance is that everything if isn't precisely the same you will get a different number. It's just a fact of -- it's a mathematical fact that a lot of people don't understand. There are a lot of firms out there over the years, and I think there is less and less, that may run two or more platforms for good reason and, you know, try and throw a lot of man hours in trying to keep those two systems in sync. It's -- it's very, very difficult to do.

And the reason is you have transactions potentially posting on different days potentially even in -- in different amounts, you -- you run the risk of having two different pricing -- two or three different pricing sources, so at the end of a period when you go to measure performance you actually will have a different valuation, which is going to produce a different number.

So, you know, every reason -- every -- you know, every reason that there is in the book is the reason why his numbers weren't tying out, and not being a performance guy, you know -- I had experienced that firsthand in my career, so I was able to on the first, you know, hour of talking to Jose, I mean, here is why your numbers don't match.

Q Okay.

A They had a very logical explanation.

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

A Different pricing, you know, so you had different valuations. Advent is using, you know, their own pricing source, Pershing is pricing assets according to their pricing sources, so differences in valuations. Advent was providing a back office, you know, reconciliation service for Stanford, but that's not to say that all transactions posted to both systems on the same day, so you had some variance there as well.

Q Okay.

A I guess to elaborate the point to the fullest

extent is another number that would jump into the mix, I think, would be the -- the model numbers calculated by Ken Johnson in the investment advisory group, which, you know, I think would reach Jose's desk in a similar fashion to it reaching my desk when I got on board, you know, probably a hard copy, PDF report, that showed what the model held as of the month end and the return number. So it would show the model, name, the securities within the model, the weights of each security, I think the return of each security, and then a total return at the bottom.

And so I think that -- and this is speculation, but it's -- I think it's pretty educated speculation, that if there were marketing materials that were sourcing Ken Johnson's work and those pitch books marketing materials made their way to the investment advisors, those advisors would call Jose and say, Jose, why doesn't my account match the marketing materials. And Jose didn't know.

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

Q Okay.

A Is advisors coming to Mark and Jose going, what the heck is going on with these numbers?

Q Right. And we'll get into it in a little bit, but, in fact, some of those issues came to a head later where a financial advisors had complained about that specific issue their clients not getting a track record that may have been represented to other investors?

A Exactly.

Q Okay. I want to go through a couple of things real quickly on the terms of your engagement and then we'll come back to, kind of, what you found when you first got there and then walk forward.

So I think we established in Boston, I will just walk through this pretty quickly, you worked on a contract basis for Stanford at initially $125 an hour?

A Three month contract at 125.

Q Okay. And eventually -- And eventually your rate increased to?

A We renewed for another six months after the three months was up at 150.

Q Okay. And -- And now I think -- I think you told me more recently you charge on a per audit basis as opposed to an hourly fee; is that right?

A The stent -- The work I do for Stanford is, you know, scaled back significantly since March of '08, and since March of '08, I pretty much have only been brought in on a quarterly basis to review their composite numbers or to perform what we call in the business a composite examination, which is a pretty thorough look at each

composite, and I do charge them now on a per composite basis at $750 per composite.

And the going rate, just to put it into perspective I have by the verifiers, the GIPS compliance verifiers such as the big four accounting firms, they charge as much as 3,000 per composite to do a composite examination. So I get -- because Stanford is a near and dear client to me, I give them -- bless you -- I give them a substantial discount.

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

Q Which works out to 3,000?

A Right.

Q Okay.

A Tough economy out there.

Q Sure. You got to get by.

Okay. So when you first started work I think you told me you were working 40-, 50-hour weeks in terms of billables?

A Correct.

Q Okay. I think you said you worked -- you had -- had an agreement, some sort of form consulting agreement that you entered into with Stanford and it was renewed several times; is that correct?

A That's correct.

Q Okay. So what's -- you know, we have talked a

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

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

They also were in the process of contract negotiation with a firm called Odessy and a product called AAA, and they also wanted me to kick the tires on that product because that was their -- their platform for portfolio management and client reporting of the future.

Q Okay. So when you say "performance reporting," you know, getting it on track or -- can you give me a sense of the scope? I mean, what -- what assets are you talking about? What -- I mean, were you looking at everything? Were you trying to look at, you know, SAS, SIM, you know, coins and bullion, CDs? What was your initial scope?

A They asked me to look at everything. In -- In -- That reminds of one of the other original marching orders which was to be able to report accurately the client's entire wealth picture with Stanford, so to incorporate all asset types into the performance report so that would include the -- the gold and bullion and precious coins, the Stanford International Bank CD and any other Stanford managed account program.

So at the time, they had built a

home-grown system that was able to at least report that to the client on a valuation basis so as of a month end or quarter end or year end they could value all of those assets classes that I just mentioned and give the client a total wealth picture from a valuation perspective, but it's a whole other ballgame to bring that to the next level and actually calculate a rate of return, which was a lofty goal that they had when they brought me in, and one that was I was not able to deliver.

Q Okay. So in general to simplify was it to -- to combine all the assets for a given client and calculate a yield or internal rate of return for their entire portfolio?

A Correct.

Q Okay. So that was the end goal?

A Correct.

Q Okay. Since you mentioned it. Why weren't you able to get to that end goal?

A Well, in order to do that -- in order to report performance on all those other assets classes, you need to bring all the data into one place so that you can do the calculation, and so, you know, to give an analogy it would almost be like, you know, trying to pull together three different firms and calculate an aggregated performance, because the -- the rare coins and precious metals were on one system and the -- the bank CD was on another system and the other sort of more traditional retail assets were is on, you know, a third system.

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

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

Q What type of data would you have needed with respect to the CD program in order to calculate a yield?

A Well, we needed really just in the simplest forms you could take beginning and ending valuation and then any client, you know, contributions or withdrawals out of the CD. If you have those data points, you can calculate a return.

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

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

Q Okay. What steps did you take to try to get that information?

A Well, you know, I tried to learn as much about, you know, the -- the different assets and platforms they were -- they were on today as I could to see how I could plug into it, so I had meetings with the guys that ran, you know, precious metals and rare coins. I had meetings

with the guys at the international bank. You know, I consulted with Advent, you know, to see what they needed in order to make this happen for me.

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

Q Mark Stys and Zack Parrish?

A Exactly. Would not -- would waiver back and forth as to whether they wanted to do the work and do it on Advent and make it happen or wait it out and do it Odessy, so, you know, Mark's kind of general approach was, well, see if it can be done. See how long it would take. See how much it would cost. And so I started down that road. And, you know, produced some -- some documents that pretty much road mapped what needed to be done.

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

A Correct.

Q The issuer of the certificates of deposit?

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

Q Uh-huh.

A I forget his name Juan or Jose.

Q Okay. The president of the Antigua Bank?

A Correct.

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

A The purpose was -- was to specifically figure out how I could get a data feed from the bank's platform, which is -- which was another complication, because they were in the midst of a conversion as well going from, you know -- I can't remember the name of the two platform off the top of my head. It's in probably in a lot of my notes. But one was called data something and the other was called -- began with a T.

Q Tamemos or something?

A Teminos. And, you know -- so that was another resistance, I guess, or another challenge, as we like to say with a positive spin in the consulting world, is that, again, are we going to do throwaway development to build a feed off of the bank's legacy platform that's going to be throwaway when they go to Teminos.

So that was probably one of my most vivid memories of my dealings with the bank is I was in San Francisco at Advent headquarters, I had all of their bigshots around the table, including their IT folks, I had set up a call with the head of IT at the bank and the president of the bank, and we were going to talk about how we could make this happen.

And, you know, the guys -- the senior guys at the Advent -- on the Advent side of table were there to let the guys in Antigua know that, hey, we do this all

the time. This is what we do. You know, the president of the bank in Antigua always, always -- could never have a conversation with him that didn't talk about client confidentiality and confidentiality of the data and how it was his number one priority to preserve that confidentiality.

So Advent having done a lot of work with Swiss banks and the like had experience, they knew about masking, you know, account I.D.s, so they were there to, you know, talk about their experience with it and provide a level of comfort that said, hey, we can do this.

I mean, from Advent's perspective, they're trying to get keep the business, they're aware of this Odessy player coming into the game and they want to keep the business. So, you know, I said vivid memory because Juan or the president of the bank, whatever his name is, he blew up the meeting, made me look like a jackass -- I don't know if I can say that on the record.

Q Sure.

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

Q Okay. What prompted the blow up?

A Well, you know, I think we were -- we were still in the brainstorming mode as to where the data was going to live after it got exported from the bank, and in the current -- the current infrastructure or architecture of -- of the way Advent worked with Stanford on their retail data, Advent had the data on their servers and

they sent Stanford a copy of that data via FTP every -- every morning.
Q Uh-huh.
A So essentially the flow would go like this, you know, Pershing custody account data would go to Advent, they would do all the reconciliation of share positions and market values, send that data -- a copy of that data back to Stanford. I mean, it was an outsource.
So when I think Juan got the sense that the bank data would be the same, you know, sort of fall in line with the same scenario, and he was very reluctant to have any of that bank data leave the Stanford world. And so we were like, hey, we're -- we're brainstorming. There are -- There are options. It doesn't have to live at Advent.
And so that's -- that was pretty much the primary reason the call blew up was he was concerned that the data was going to leave the Stanford world.
Q And -- And what did he say when got off the line?
A He just said that was a deal breaker and, you know --
Q So providing the CD cash flows to Advent was a deal breaker.
A Having data leave Stanford's world is -- was

the deal breaker.
Q Okay. And specifically the data regarding the certificates of deposit?
A Correct.
Q Just to wrap all this up. Is it fair to say that all your efforts to get cash flow information relating to the CDs were fruitless?
A Yes.
Q Okay. And I think you used the word stonewalled when we were in Boston and just a minute ago?
A Yes.
Q Okay. So again, I'm trying to narrow the scope of what you were doing when you first got there. You said you had those challenges with the CDs, so essentially you had no data so you couldn't do anything with the CDs, correct?
A I ended up doing absolutely nothing with the CD.
Q Okay. And then I think -- I don't want to belabor the issue, but when we talked in Boston, I think you talked about gold and bullion and there were challenges regarding the pricing?
A Correct.
Q Okay. Was it generally that some of those assets it's hard to get publicly available price data?

A Yes. They are very subjectively priced especially the rare coins.
Q Okay. And -- And in Stanford's context when say subjectively priced, I think you made a reference to

one guy at the company determining the price?
A Yes. Joe -- Joe Freeze or Freedman the head of the division, he -- he and his wife -- my understand was he and his wife priced everything on a spreadsheet on a quarterly basis. And from a performance guy's perspective that just never sits well.
Q What are the problems with that?
A Well, you know, it can really -- you know, it can really affect your performance, especially if I'm trying to bring that number into, you know, a bunch of numbers that are market priced, so I'm mixing apples and oranges in the same bag.
Q Okay.
A And actually, my recommendation to Zack Parrish and Mark Stys after I learned more about the rare coins was to absolutely not even attempt to include that in a client total return number. You know, put it on the -- on the page as a value or an estimated value, but don't include it in your rate of return, because it's going to skew it up or down based upon an arbitrary valuation.
Q Okay. What came of those recommendations?

A I'm not sure. I really don't have a lot of visibility into where they are with the Odessy platform today. Rob Baker would be able to speak to that in detail. I know -- All I can say is that I know Rob has had more success in this integration with the other assets into the Odessy platform than I did with Advent.
Q Okay. Just to kind of wrap this issue up. Are

the -- Are some of the problems with the subjective nature of the gold and bullion valuations just that you don't have an objective, kind of, third-party valuation that you can rely on?
A Well, that's really out of my comfort zone, that asset class. I know they had a system called Intelequote, and I'm not sure how accurate that system is and how -- how much that system is used in the actual final valuations. So for -- you know, and I only met with -- with the gold and coin guys for probably two hours total in my engagement there, and my sense of the matter -- of -- of the sense I got from the head of the division was that he knew more than anyone else in the business and what he thought a coin was worth was what it was worth.
Q Okay. And what gave you that -- how -- how did you reach the conclusion that they were doing their own kind of, you know, discretionary pricing for lack of a better term?
A He told me.
Q Okay. He told you that's he how he did it?
A I think he used -- he had -- you know, there was a method to his madness, but at the end of the day I think the final number was he maybe looked at this source, this source, and this source and said here is the number.
Q Okay. And in the performance world it seems to me, and this is one of the problems there that you're grading your own cooking to a degree?

A Absolutely.

Q I mean, so -- I mean, he's putting someone in that asset and then he is telling them that that asset has increased in value presumably?

A Exactly. And then, you know, he pretty much justified it at the end of the day just I guess as you would in the real estate market and a rare coin is what somebody is willing to pay for at the end of the day, so, you know, there's a number of different ways they sold these coins.

You know, they had all these different types of, you know -- I don't know coin geek conventions or auctions and, you know, several different ways to sell a coin and until you bring that to bear, what is it worth?

Q So in other words, until you actually have a sale, it's worth what you say its worth?

A Exactly.

Q Okay. Okay. So you weren't able to do anything with the CDs, you weren't able to do anything with gold -- the gold coin operations, correct?

A Correct.

Q Okay. So what does that leave?

A We're back to just really the assets in Pershing, you know, the -- the more traditional assets. And so, you know, I felt like there was enough work to be done there to clean up that process and to put in a tight operational process, get good, clean and accurate results

out of Advent, take it a step further along and build these composites for marketing purposes that I attacked that.

That was something that, you know, suited my background and there was plenty of -- of work to be had, so, you know, just to give you an appreciation some kind of scope, is at this time there was probably about 4 to 5,000 accounts on the Advent platform.

Q And this time is early '06 or late '06?

A Late '06.

Q Okay.

A Early '07. So come spring of '07, February march, I'm actively helping executive level management at Stanford, Jason Green specifically, negotiate a new Advent contract. And I convinced all the powers that be, Jason Green, Mark Stys, Zack Parrish, that until this Odessy thing is up and running, which was at least everyone agreed that that was a year or two year -- a year to two years away, that we were going to make the best out of Advent.

So we signed a new Advent contract that I helped negotiate, and come March of '07 we went from 5,000 to 22,000 accounts on Advent. And so there was plenty of work there to make that happen, and then put a process in place, you know, we recruited a team of people to support it, so that's when all of those things were going on.

The -- The legacy performance people were moved out of the scene by that point. They had moved

onto bigger and better things, as we like to call it, and I recruited some people I knew in performance reporting and we put in an operation and we basically plugged in an operation.

At that same time, you know, Rob Baker was -- was working on a lot of that stuff, too, but he -- he slowly started to get pulled into more of the Odessy type of stuff, so that's how he and I as consultants started to the divide and conquer a lot of work.

I mean, that's why we were easily billing, you know, 40 plus hours a week. We were buried. We were like full-time employees.

Q Okay. And so these Pershing accounts were these largely the managed accounts like we have talked about earlier, the SAS models?

A The bulk were probably retail. So just, you know, managed by the -- the adviser.

Q Okay. So they didn't necessarily fall into a specific strategy?

A Correct. I mean, even to this today I think SAS has only about 7,000 accounts, so these were -- and you know, there's a handful of other Stanford programs. They had PA, which was called portfolio advisers they had PP, which was portfolio partners, they had SAM, which was Stanford asset management, which was a global fixed income strategy.

But even after naming all those strategies I think that still only may be gets you up to 8 or 9,000

accounts, and so the rest were just, you know, your typical retail financial adviser type accounts.

Q Right. In terms of assets, though, SAS was pretty big piece, I understand?

A Yeah, absolutely.

Q Okay.

A Absolutely.

Q And we'll go through these in a little bit, but I think of got you -- kind of your three-year audit --

A Okay.

Q -- numbers and we'll go through those. But, for example, in '07, you got percent firm assets SAS growth 38 percent?

A Well, that's -- that's misleading. That's a misleading report. That's because we didn't have a number for firm assets, in order to make that report run you need to plug a number, so the number I plugged was actually SAS assets. So each composite is -- is expressed as a percentage of SAS assets not firm.

Q Okay. But the end of year assets in each strategy should be accurate?

A Yes.

Q Okay.

A At the strategy level that should absolutely be accurate, the firm numbers are bogus.

Q Okay. But in theory you should able to get pretty close by taking the end of year SAS number from your reports and then just dividing it by the total managed by Stanford Capital Management?

A If you were to sum those up the entire SAS program and then divide it by total Stanford assets, if you were able to got that number then you would be able to get the percentage of SAS. Yeah.

Q Okay.

A I never saw a number like that, but in order to claim GIPS compliance, that is a number they would have to get to on at least a monthly basis is what our firm asset as the firm is defined. And they weren't there, so I plugged the number in.

Q Okay. So let's focus a little bit on, you know, the SAS or MFP, when you got there had it already changed names from Mutual Fund Partners to SAS?

A It had.

Q Okay. And just for the record what does SAS stand for?

A That is a good question. I think it's Stanford Allocation Strategy.

Q That's correct. Okay.

So -- So when you first got in, what were your responsibilities or what did you do relative to SAS and --

A Well, you know, another good question. There were pulling me in a lot of different directions when I first arrived. It was almost like, you know, a relief I

think to a lot of folks that someone was finally there that knew performance measurement, because they had so many, you know, different performance measurement issues that, you know, Jose was unable to address. So, you know, I think I went through pretty explicitly my original marching orders, but then I would get pulled into other things.

And one of the other things that came up pretty quickly was this whole concept of account level performance differing from market level performance, so I started to look at what the guys in investment advisory group were -- were doing for returns, and I was essentially trying to prove their numbers.

And at that point in time we were focusing on a 12-month period that went from October of '05 through -- through September of '06, I believe, so because I was doing this in November, so that was all the -- you know, I started at least looking at it maybe in November or December. But I wanted to do a 12 month or at least four -- I think I was doing a four-quarter analysis.

And, you know, so that's -- that's when I first started looking at SAS at the model level.

Q Okay. So you -- your initial look at SAS you looked at basically a 12-month period ending with third quarter 2006?

A I believe so.

(SEC Exhibit No. 30 was marked for identification.)

BY MR. KELTNER:

Q Okay. I'm going to go ahead and hand you a document that I'm marking as Exhibit 30, and I'll represent to you that this came from your electronic production and based on some e-mail correspondence that I have seen, I think this may represent the analysis you were just discussing.

But can you take a look and tell me what Exhibit 30 is?

A Yes. This Exhibit 30 looks exactly to be what I was just speaking about.

Q Okay. So just in -- let's start at a high level and explain to me what Exhibit 30 is and then let's walk through it a little bit.

A Okay. Well, it looks like I took the model returns as they were calculated by the folks in Jason D'Amto's group in IAG, and then I believe at this time, you know, this was still very early and -- and Jose was still in the picture, so I asked Jose to give me a dump out of AXYS, because at this point in time I still didn't even have access to AXYS, which is the Advent product. And so he had -- in Advent there is -- you can label an account with a strategy or an objective.

Q Uh-huh.

A And so Jose gave me a dump of account level returns for each month end from October, '05 through September, '06 that were labeled as such. Now, he had no faith or confidence that those labels were correct or

incorrect, but our working assumption was for the most part we say we made the assumption that -- that these accounts were correctly labeled as growth or balance growth and so on.

So what I did was I did a very quick and dirty composite equal weighted calculation, because I didn't take market values into consideration, I just took the return, I took all the accounts that were tagged as growth and, et cetera, I threw out the really high returns, I threw out the really low returns, and came out with this -- what I would call a preliminary quick and dirty composite return.

And what I was trying to do get at is how big and bad is this problem. You know, and I think what this Exhibit 30 showed Mark Stys, who most likely was the first recipient of this is that some of the models weren't that bad and some of them were.

Q Okay.

A So some were obviously worse than others, and you know, from a consultant's perspective, you know, day one you try justify your existence?

Q Right.

A So I'm looking at this saying there is -- there is some definitely good work for me to do here. These numbers are probably inaccurate, and I can -- I can get these numbers tighter and I can solve their problem.

Q Okay. When you say these numbers are probably inaccurate, were you referring to the model return numbers?

A Correctly.
Q Okay. So and the model return numbers were the numbers that you got from Ken Johnson?
A Correct.
Q Okay. And these are the numbers that we talked about earlier today that you think were model performance numbers that was likely used in the marketing materials?
A Correct.
Q Okay. And we talked about the complaints from certain financial advisers that their actual clients were not receiving the model returns, right?
A That's correct. And -- And let me just elaborate on one point. At the time I produced this document, I still did not have the knowledge as to whether I could rely on the account level performance coming out Advent -- the account level performance coming out of Advent, so that was just -- you know, in my mind as I was doing this analysis is there is a possibility that the account level returns could be wrong, because I didn't feel confident in their process for producing account level returns.
Now I can say, you know, in hindsight that it was a rare exception that we actually ever revised an account level return. So in summary what that meant was contrary to Jose's opinion at the time, Advent was doing their job. Advent was reconciling these accounts. Advent was in fact producing inaccurate account level return.

Riordan_Steve_20090211.txt

So when we did go back and recalculate, you know, good composite returns, when we did go back and calculate more accurate model returns, we came up with similar composite model numbers -- or model and composite numbers that were very, very close.
Q Okay. So your preliminary review in Exhibit 30, and I'm not tying you to any specific number, but just in general, you think these composite return numbers were fairly accurate and later proved to be when you did your more specific analysis?
A That's correct.
Q Okay. So with all the -- the benefit of all the time you've had at Stanford, you think these composite return numbers were fairly reliable give or take a little bit?
A Correct.
Q Okay. So this -- just walking through the chart, let's start with SAS balance growth and use that as an example, since it's at the top of page one of Exhibit 30. So there is a first -- there appear to be return periods down the left-hand side, and as we talked about it includes Q4, 2005, Q1 '06, Q2 2006, and Q3 2006; is that correct?
A Correct.
Q Okay. And then you also it appears calculated a 12-month return as well?
A Yes.
Q Okay. And then the first column is composite return, and for simplicity that represents actual client

Riordan_Steve_20090211.txt

performance?
A Correct.
Q Okay. And the model return in the second column that's the number that was given to you by Ken Johnson?
A Correct.
Q Okay. And who did Ken Johnson report to?
A Jason D'Amto.
Q Okay. And then difference column that -- that is essentially composite return minus model return; is that correct?
A Correct.
I just had to look at the number to see which --
Q Which was --
A It was simple addition, subtraction, I just wanted to see which column I was taking away from.
Q Okay.
A And it looks like I subtracted model return from composite return.
Q Okay. So a negative number in the difference column reflects a return where the composite return was less than the model return?
A Correct.
Q Okay. So just going through the numbers, just for an illustration, Q4 2005, you found that the model was 111 basis points higher than the composite?
A That's right.

Riordan_Steve_20090211.txt

Q Okay. And the Q1 '06 110 basis points higher than the composite?
A Correct.
Q And Q2 '06, it's 26 basis points higher than the model?
A That's right.
Q And then Q3 2006 is 64 basis points higher than the model?
A That's right.
Q Okay. And so the total for the year you found that the model return was 332 basis points higher than the composite return?
A That's right.
Q Okay. And then it looks like you did the exact same analysis for SAS growth, SAS income, these other -- model these other models?
A That's right.
Q Okay. Each of them -- I guess strategy is the right term. Each of the strategies identified Exhibit 30, are these the strategies that you preformed your audit work on?
A That's correct. I'm admiring my work. This is good work.
Q Good.
A This -- This paints the picture exactly as it was at this point in time.
Q Okay. So you come in, you do this preliminary, turns out, good work on -- represented on Exhibit 30, so generally you said you were trying to justify your

existence. So what -- what are you telling them in terms of what the problems are?

A Well, you know, I'm -- I'm starting, I think, to make the preliminary case for composites and justifying the -- the work required to get a composite return and, you know, essentially educating these folks on what a composite is and the benefits of composite.

You know, the -- the most obvious being that, you know, if you create a composite return that's made up of account level returns, you're going to eliminate this problem of having differences between a strategy level return and an account level return. It's just, you know, a mathematical fact, if you construct the composite, you know, well.

I'm also starting to develop an opinion that the folks that were calculating -- calculating the model return had performance as is a second language. You know, it wasn't their -- you know, these guys are trading, managing portfolios, and, you know, my experience throughout my career it's very rare to find a guy that also has the performance skills set along with sort of the portfolio management and the trading skills set.

I have been educating portfolio managers on performance my whole career, you know, when they --

they call me up in previous roles as an analyst and say, there is no way I underperformed a benchmark by that much, or over-performed. Hardly get that call. But it -- it still -- it's an educational process, so this didn't surprise me that much that, you know, these guys were not able to produce an accurate number.

Q And just to step back, these guys were not able to produce an accurate number. Who were those guys?

A Ken Johnson specifically or anyone else in IAG that had anything to do with these model calculations.

Q Okay. And IAG is the Investment Advisory Group?

A Correct.

Q Okay. Is that D'Amto's group?

A Correct.

Q Okay.

A I don't know where they're getting their data to -- to come up with their returns, because I very simply went to Bloomberg and Yahoo and their -- all the holdings within these strategies are very liquid mutual funds, so very easy -- easy to get a price. So you take a price return and your weight and there is your model return.

And I think we talked about this in Boston, my speculation was -- is that they didn't keep very good records about when and what was rebalanced intra-period, so if you don't capture those intra-period rebalances, you will get bad numbers, it's -- it's a mathematical fact, because let's say you bought a new

mutual fund on the -- the last day of the month. What I think Ken Johnson was doing is -- is taking a snapshot of the model at month end and assuming that that was the model for the whole month and calculating the return that way.

Now that I have had some time to think about this, that -- that is what I think he did, potentially. I don't know for a fact. But you can't do that. If you're in and out of mutual funds during the period then your performance is going to, you know, be dictated by which mutual funds you held during the period.

And the account level, the account level is capturing all the rebalances and you have to pretty much mimic the account level with the model. And I don't think they did that.

Q Okay. The failure to account for the rebalances, would that always skew the results high?

A No.

Q Okay. So the obvious question I've got for you looking at Exhibit 30 is SAS balanced growth according to your good analysis appears to show that the model was 332 basis points high, SAS growth was 334 basis points high, and then some of the other strategies were a little lower, also SAS balance appeared to be 281 basis points high.

In looking through Exhibit 30 on an annualized basis were there any models that you found

that under-preformed the composite? In other words, are there any instances where actual client performance was higher than the model on an annualized basis?

A Not as group.

Q Okay.

A Remember everything in the composite return column was in our -- relatively arbitrary group based on some assumptions that I made from the account level data. You know, assumption one that the account was tagged properly as growth. Assumption two was that I only took really the sweet spot of the returns, I didn't take the outliers, so given those two assumptions that produced my composite return --

Q Okay.

A -- column.

Q But you did throw out outliers in an effort to --

A High and low.

Q High and low. Okay.

A Yes.

Q And eventually you did do more thorough composites, correct?

A Correct.

Q Okay. And those more thorough composites, did they generally confirm or did they disprove your analysis in Exhibit 30?

A My further analysis confirmed Exhibit 30.

Q Okay. So generally once you did the more detailed analysis and confirmed that the accounts were classified correctly, you did those things as part of your composite analysis later?

A Well, we really started from, you know, the ground floor scratch when we constructed the actual composites that we have today, we didn't take any of the tags into account or -- or any of that recordkeeping we went right after the account level holdings and account level returns in order to construct the composite.

Q Okay. So you made sure that the accounts were classified correctly?

A Correct.

Q Okay. And after you did that, again, your conclusions really didn't change much from Exhibit 30? You may have had more precision, but generally speaking your conclusions didn't change?

A That is true, my conclusions remained the same that I did not think that this model performance prior to my arrival was accurate.

Q Okay. And is it also fair to say that the model performance was higher than the composite performance before your arrival?

A Yes.

Q Okay. Was it consistently higher with the exception of a few quarters?

A For the most part, yes.

Q Okay. You know, we talked about rebalancing as one possible explanation, and you said rebalancing would not necessarily result in always being on the high side?

A I'm sorry. Could you repeat that question?

Q Sure. We talked at possible explanations for why the model would be wrong, and one of the things that you offered was rebalancing?

A Yes.

Q If rebalancing was the sole cause, would you expect the model to always be high -- higher --

A No.

Q -- than composite performance?

A No, I would not.

Q Okay. All things being equal, would you expect to roughly see the same amount on the high and low side depending on how the timing issues worked out?

A Yes.

Q Okay. So did it strike you as unusual that the model was consistently higher than the composite returns and many cases more than 300 basis points?

A It did strike me as a little bit off.

Q Okay. And explain why.

A Well, I mean, just, you know, from a mathematical, statistical perspective it -- it would be difficult to error in the favor consistently as consistent as you I think can visibly see here in Exhibit 30.

Q Okay. It's unlikely from a mathematical standpoint that it's just happenstance?

A It's -- I would say it's unlikely. I mean, I don't want to point any fingers, although at the time, you know, I might have.

Q You may have pointed fingers at Ken Johnson?

A I think I was just -- my gist of it to Mark was, you know, these guys don't know what they're doing. And I did probably, I would say knowing me, point out to Mark it did also seem a little bit fishy that they were always higher.

Q Okay.

A Or higher most of the time, I should say.

Q Okay. And just so we put all this in a timeframe, this analysis was early 2007?

A Late '06.

Q Early 2007?

A Yes.

Q Okay.

A If you found this file in my -- in my electronic folders, then the date of it I would guess it would be December of '06.

Q Okay.

A So after I was on the ground for a month or two.

Q Okay. I think I may have seen a preliminary version of this that just had SAS balanced growth maybe, maybe you did one account and then later you did this complete analysis?

A I think I did. I mean, I think, you know, I recall correctly, Mark -- Mark was getting a lot of calls from the advisers in the field, and with specific examples, and I think Mark asked me to look at one of

these in depth and after I showed him one, he was like, Jesus, okay. Might as well run them all.

So then I eventually ran them all.

Q Okay. So you told Stys something to the effect of "this seems fishy"?

A Well, basically, you know, I'm not able to prove out this -- this return is what I told him.

Q And was the fishy part was that it was always on the high side?

A Yep.

Q Okay. What was Mark's reaction?

A Well, I think Mark, you know, genuinely wanted to get this issue resolved. He had a lot on his plate, and he -- this was a nuisance to him, because this was -- this all predated him. So he was trying to look forward and he is got the advisers calling him, you know, on a daily basis trying to pull him back into the history and what was done before he got there.

So, you know, I think that could best describe it as this was a nuisance to him on some level he wanted me to take care of it. Mark was relatively big picture guy, so he wanted, you know -- that's why I tried to keep my analysis relatively high level. I'm sure I did a lot behind the scenes of this three-page document. I know I highlighted the months on Exhibit 30 where I was, like -- I highlighted months that in my estimation there was no way in hell that that return is correct.

Q Okay.

A Those -- Those are the highlighted ones.

Q So for example October, 2005, on SAS balanced growth where the model return is about 97 basis points better than the composite?
A Right.
Q Okay. So these are examples -- the highlighted ones are months you identified were clearly the model was wrong?
A Right. And if you notice the double star and revised column.
Q Uh-huh.
A If you read what it says on Exhibit 30, revised model is an estimate that assumes the recalculated model matches the composite return exactly. The actual calculation will vary approximately plus or minus the annualized tracking -- I don't even know what that means.
Q Well, I was trying to guess. I mean, does that mean -- is this what you're proposing revising the model to, or is this a revised model number that perhaps you got from IAG after you had given them some results or --
A Well, yeah. And then I have that model impact, so I think what I'm saying is if you revise the model -- okay. I get it. I remember now.
If you revise the model -- for example, on SAS balance growth, if you revise October, 2005 and February, 2006, you would get a new return of 9.99, which

would at least be to closer to my 8.91.
Q Okay.
A Did you follow me on that?
Q I think so. Okay.
A So just by restating those two months you would shave off 224 -- you would be 224 basis points lower, and in my estimation more accurate.
Q Okay.
A And they did, in fact, just for the record, go back and -- and revise some of these months that I pointed out to Ken Johnson.
Q Yeah. I mean, just generally without getting into a lot of detail, it looks like over time some of the performance numbers that were presented to marketing were walked down, like, perhaps -- I mean, perhaps as you were doing your work maybe some of this preliminary work, the models were adjusted downward. Does that sound consistent with your recollection?
A Well, again, I never had much visibility, if any, into marketing materials.
Q But in terms of the models that you saw?
A I think, you know, I was communicating this back to both Mark and in some instances Ken Johnson and Jason D'Amto, and I think in some instances they went back to their math and fixed it.

Q Okay. Did you show Exhibit 30 to Ken Johnson?
A I can't say for sure.
Q Did you convey the message from Exhibit 30 to Ken Johnson?

A I think so. I think so. That's good a question. I honestly don't remember. It would probably be in my E-mail communications. If I did, I would have fired it over to him via e-mail.
Q Okay. What about D'Amto, did you discuss Exhibit 30 or more generally the problems identified in Exhibit 30?
A Well, I did. I mean, we definitely had dialogue about it. You know, we -- we definitely -- you know, I definitely wanted to get Jason on board, and essentially I was trying to build his confidence in my abilities as a performance person to calculate an accurate number. And so I'm trying -- I was trying to demonstrate a level of -- of expertise above and beyond his team and the ability to calculate a good number here.
And so it was definitely communicated -- you know, I think Mark Stys was pretty much my buffer as opposed to any finger pointing as to did you guys blatantly do -- overstate your numbers. You know, I let Mark -- if that message was carried, that would have been carried by Mark not by me.

Q Okay. But what the numbers actually were, you conveyed that message, in terms of accusing people that wouldn't have been your role?
A Well, I pointed out inaccuracies.
Q Okay.
A I left -- I stopped at the point where the inaccuracies were in the favor of the investment manager.

Q Okay.
A Mark would have carried that message.
Q So you present these results in Exhibit 30 to Mr. Stys and likely others, so based on that, what happens next?
A Well, just to -- just to correct your -- your statement. Most likely this document would -- would not have been seen by anyone other than anyone Mark and whoever he would have chosen to share it with.
Q Okay.
A Because I don't think we wanted to blast this out -- Exhibit 30 around the firm, which was, you know, preliminary analysis that was proving the financial advisers that they had a legitimate gripe.
Q Okay. And ultimately you conclude -- you concluded that they did have a legitimate reason to be -- I think you used the word pissed in Boston?
A Yeah. They -- They definitely, you know --

well, let me rephrase that. In some instances they had a legitimate gripe. In other instances, their accounts were not entirely discretionary, so they were -- if you were recall our conversation in Boston, they were two sources of tracking them. One was the fact that the model returns were inaccurate. Once you took that error out of the equation, then it was did the model exactly -- I'm sorry. Did the account exactly follow the model. And that was your other source tracking error.
Q Right. And as I understand it from talking to you and some FAs the failure to track the model can be

caused by either the failure of the IAG group to track their own model or the FAs having an account that's -- has some discretionary elements as well?

A That's exactly right.

Q Okay.

A Both of those scenarios would cause an account not to follow in line.

Q Okay. So IAG failed to follow their own model, you might -- that might result in deviation from model performance in a given customer's account?

A Absolutely. Trading errors, lag time in trades, you know, if -- if you rebalance 90 percent of the accounts on, you know, the 5th of the month and then the other ten percent on the 20th of month, they will have different returns.

Q Okay. And again, failing to track the model, would that tend to skew the results higher or lower?

A It could. Again, mathematical fall equally on either side.

Q Okay.

A Roughly.

Q But there is no reason that it should always skew things to the high side?

A Correct.

Q Okay. So I know you say, you know, let Mark carry the water in terms of, you know, delivering any bad news, but did you get any pushback from Baker or D'Amto, did they try to defend their model?

A Well, Baker was working for me.

Q Sorry. Johnson?

A Ken Johnson, yeah. They -- They did try, you know, there was a few defenses and they actually did make one good point, which was -- which was valid and that was that, you know, in addition to the analysis I did in Exhibit 30 I also did some other analysis that you may have as other exhibits, I don't know, or they're in my files, where I just did pure model performance. Where I took their -- their weights at -- at given months end -- month end and calculated a model return, and I remember being frustrated at the time because their recordkeeping for rebalances was horrendous. I mean, just to put it in perspective when I -- when I recreated what the rebalances should have been for a given year, I had, you know, a five-page document, where they have literally years of rebalancing on one page, which kind of just all right, you know, if you get the gist of what I'm saying is they weren't keeping a record of rebalance on those things.

So it was almost impossible for me to calculate a good model return. So -- I forget what my point was.

So when started coming up with -- with my version of a pure model return and we started to compare notes, their one accurate defense was that my returns didn't account for dividend reinvestment in the mutual fund price, so I had to go back and redo my numbers to take dividend reinvestment different mutual funds that

paid a dividend into account, but for the most part that -- that bumped the returns a handful of basis points here and there.

Q Handful is, what less than five?

A Five basis points here, may be a worse case on SAS income that has some pretty high yielding mutual funds in it that paid a big, you know, dividend and had a larger impact on return. In a given month it could have been as high as 25 basis points.

Q Okay. But it was -- was your net conclusion that the dividend reinvestment was only a very small fraction of the difference between your composites and the model?

A Well, it was actually a difference between my model and their model, because the accounts have all the dividends reinvested, so again the account returns they go back to be your benchmark of what the right number is, what's the real number.

I was creating a, you know, theoretical model on paper in my Excel spreadsheet, and so when we compared models, we had differences there. So it's a totally different analysis then this.

Q Okay.

A This is account to model. We were doing theoretical model to theoretical model.

Q Okay. So you try to reconstruct the models that were being used IAG?

A Correct.

Q And when you did that, generally what did you find?

A Well, we differed because of the dividend issue that I just explained, so we got that out of the way and we still differed. And the reason we differed, I'm guessing, is because of this whole notion of rebalancing.

We would have to rebal the models exactly the same in order to come up with the same number, and because of their recordkeeping that was virtually impossible. I believe they did go back and take another stab -- yes. And I know Ken Johnson did do this and you probably find this in my e-mail correspondence with Ken, is that when I couldn't prove out of his model numbers, I -- I said that it has to be because you're not giving me accurate rebalancing data to create an accurate model.

So he did go back and give me another document that had more details as to dates and details of rebalancing.

Q Okay. So -- But initially it was impossible for you to reconstruct their model with the records that they had on hand?

A Correct.

Q Okay. And so the horrendous recordkeeping played a role in the inaccuracy of their model returns?

A Correct.

Q Okay. Again, the rebalances, those would not result necessarily in skewing performance higher on average?

A It -- It should go either way. Right.

Q Okay.
A You know, unless -- You know, and this is pure speculation here, but just to get my arms around, I think, what you're saying is that unless you decide on the last day of the month to see which mutual fund performed the best during that month added to the -- add it to the model at month end and then assume that that was in there the whole period and then calculate your return. If you did that, then you would have a higher return every time.
Q And if you did that you would be intentionally skewing the model higher?
A Exactly.
Q Okay. That would be one way to intentionally skew the model high?
A Exactly.
Q Okay. So just going with the benefit of hindsight, picking the best performing fund and assuming it had been in there for entire period that you're analyzing?
A Correct. Yeah. That would not be cool.
MR. KELTNER: Let's go off the record.
(A brief recess was taken.)
MR. KELTNER: We're back on the record at 11:50.

Riordan_Steve_20090211.txt

BY MR. KELTNER:
Q So we talked a little -- we've talked quite a bit about your preliminary conclusions regarding the model versus composite returns. And we talked about the fact that you generally concluded that the model returns were high?
A Yes.
Q Okay. And then we talked about the fact that you later compared a reconstructed model to a model that was generated by IAG, correct?
A Correct.
Q And when you did that analysis you concluded that the IAG model was high?
A Correct.
Q Okay. And then when you later did your composite returns of actual client data, did that confirm your prior analysis that the IAG models were generally speaking high?
A Correct.
Q Okay. So, you know, we talked about rebalancing issues and how those might impact the model performance numbers. Were you ever able to discern any reason as to why the models were always high?
A No.
Q Okay. Did you try to?

A No. My primary goal was to get it right.
Q Okay.
A And to me getting it right meant being able to construct a model return that matched a composite -- a

Riordan_Steve_20090211.txt

true composite return. And when I did that for 2006 that -- that was a victory for me. Was that I was actually able to do an entire year of data where model returns matched composite returns and I have a document that proves that to within -- on an average 10 to 15 basis points for the year.
Q Okay. And when did you do that work?
A Probably in the middle part of '07, I was probably getting to that. Probably mid -- I think in -- in April of '07, I finally had model returns that I felt good about, and then later in '07, so I'm guessing, you know, definitely in the second half of '07, towards maybe even the end of '07, I had composites constructed for '06 that the matched the models I had for '06.
Q Okay.
A We had to build the tool to -- to do composite construction.
Q Okay.
A That took some time.
Q Okay. When you constructed these models in mid '07 for 2007 that you were comfortable with, did that

involve lowering the returns that had been used, or were these from '06?
A You know, that's a good question. It's funny at that point, Tom, I pretty much stopped relying on or looking at anything that got out of IAG.
Q And why was that?
A Because I didn't have any confidence in any of

Riordan_Steve_20090211.txt

the documents that -- that they had sent me to -- sent to me previously, so it had definitely by that point had become a source of frustration for me of getting any right information out of them, so I started to go on my -- you know, go on my own.
I had been on the ground probably for six plus months, six -- six or eight months, and I started to rely on other sources for -- for data, so I stopped comparing my results to theirs because it was just a waste of my time.
Q Okay. And generally speaking that was because you had no confidence in their recordkeeping?
A I didn't have confidence in their recordkeeping, their numbers, their calculations or -- or much of any information that they provided me.
Q Okay. Did you convey that frustration to Mr. Stys?
A I did.

Q Okay. Is that kind of on an ongoing basis, open dialogue in terms of, you know, what you're finding?
A What do you mean?
Q Well, I mean, was there one moment where you went and told him, I've got these concerns, or was it just over time?
A Oh, no. It was over time.
Q Okay.
A It was over time.
Q Okay.
A And say like for an example I had a model -- I

got documentation from them with a model that didn't add up to a hundred percent, which is, you know, fourth grade math.

Q The spreadsheet should foot out?

A You have a total holdings that should equal a hundred percent, if you add up all your allocations.

Q And if that doesn't then that means that formula bust or you're missing data or something?

A I don't even know how you do that. You're not checking your work.

Q Okay. One of the things we talked about in Boston was when you got the model data, the model, returns from IAG, what form did they take?

A It was typically handed to me hard copy, or I may have gotten a PDF via e-mail.

Q Okay.

A So, you know, from a performance guy's perspective, you know, you want this in Excel so you can kick the tires on it. And I'm not sure I ever got much of anything in Excel, which would have been much more useful to me.

Q Okay.

A Which was another source of my frustration.

Q Okay. So these -- these PDF files who would they come from?

A Ken Johnson.

Q Okay. And I just to, I think, state the obvious is the frustrations that you can't look inside

the cells and see what the calculations are?

A Yeah. Exactly. I mean, then I would be able to answer your question earlier as to why -- why did they give me a model that didn't add up to a hundred percent, so I would basically have to take the hard copy or the PDF and type everything into Excel so that I could check everything.

Q Right.

A I mean, the simple stuff, like does the model add up to a hundred percent.

Q Okay. So what did you do with this frustration, did you e-mail Ken back, did you call Ken back, say, hey, if you would give me the stuff in Excel my job would be a whole lot easier?

A You know, I think I was very careful as -- if I had been a full-time employee, like, if I was the managing director of performance there, I would have blasted him.

Q Okay. But you're trying not to ruffle any feathers?

A As a consultant, yeah, I don't want to rock the boat. I mean, these guys are paying me well, Mark was my guy, so I was able to talk to Mark off the record and vent to him. So, you know, it started being just like, hey, this is what it is and -- and I also have the attitude as a consultant is on an hourly contract, is the meter is ticking, and if you want to give me a hard copy and make me type it in, that's an extra hour. Again as a full-time employee would I allow a guy like that to waste

my time like that? Absolutely not.

Q When you keyed the number -- when the keyed the numbers back in manually, were you able to figure out what calculation errors may have -- might have been in play or --

A You know, no, because there is just so many moving parts to getting a good number.

Q Uh-huh.

A Like I said, the rebals, the pricing, the weightings, everything has got to be just right, which is -- which as I said earlier, when I was able to get composite numbers that matched theoretically constructed model and have a match that was -- that was a huge victory for me in that we have finally arrived at the place where we wanted to be.

Q Okay.

A And that wasn't until the second half of '07. You know, that said, I do recall in April of '07 when I did do Riordan Consulting calculated models for '06 at that point I was engaged with compliance, and at that point they were starting to use my numbers instead of Ken in the marketing materials, which was again a small victory I think for me.

Because I remember vividly marketing folks and compliance folks waiting and asking me on a daily basis in April of '07 when do you think you will have '06 numbers, Steve? When are the '06 numbers going to be done? So I think at that time whoever, Mark Stys,

compliance, whoever talked to say, hey, you know, what? We've got this guy in here, he's a performance expert --

Q Uh-huh.

A -- let's use his numbers for -- at least for '06.

Q Okay.

A So I think they were at that point there was recognition that what was coming out of IAG maybe less than accurate and that if we've got a guy here, we're paying him, let's use his numbers for '06 even though they're still model numbers at this point.

Q Okay. And when you say there was recognition, who do you attribute that to?

A I mean, I have to attribute it to Mark and Mark explaining my case that I made to him to the -- to the other folks, the powers that be.

Q So Mark Stys was your primary contact and then you think he disseminated that up to Zack Parrish --

A Yes.

Q -- D'Amto --

A Yeah.

Q -- on up the chain?

A Yes. He was -- He was my guy. He was my guy I reported pretty much everything to, talked to on a regular basis, and -- and I expected him to communicate with, you know, throughout the people I needed to know.

Q Okay. I understand that that's generally how it worked, were there any meetings that you can recall where D'Amto was present or where Parrish was present where you talked about, you know, these issues regarding the mode performance, you know, and it's lack of reliability?

A There -- There may have been one or two max. It may have come up at a meeting that was the -- the primary purpose of the meeting was for something else. I can't say for sure.

Q Okay. I mean, sitting here today, can you say that D'Amto knew about the results of your work?

A Absolutely.

Q Okay. And how do you know that?

A Well, you know, unless Ken Johnson didn't tell his boss anything, because Ken and I were communicating on a fairly regular basis until I got to the point of frustration with Ken and started asking him for less and less and trying to find out more and more on my own. But, yeah, I mean, they knew I was working on this and whenever it made sense to send an e-nail blast out to anyone more than Mark, Jason and Ken were always on that distribution list.

Q Jason D'Amto and Ken Johnson?

A Absolutely, yeah. So, like, to use my earlier scenario from when compliance and market were waiting for my '06 7 numbers when I finally got them done, you know, Jason and Ken would have been cc'd on that distribution

list for sure.

Q Okay. And then ultimately they would have known if numbers were restated?

A Well, all they would have to do is look at their numbers and mine and know which direction the numbers went.

Q Okay. And you said that eventually you think --

A I stopped comparing. Sorry to interrupt you. At that point I had stopped comparing, because it was a waste of my time.

Q Okay. But you said that eventually you became aware that they wanted your 2006 numbers to use in marketing materials?

A Correct.

Q Okay. Let's back to up to that for a minute. You said you engaged with compliance. Who from compliance?

A Specifically Shenna, Shenna George and -- and Rhonda, then Lear, now Davis.

Q Do you know whether Rhonda is related to Jim Davis?

A I don't think so. I think she just got married. Well, she just got married, so she might be now. Who knows. I don't know the Davis that she married.

Q Okay. And so what was your interaction with Shenna and Rhonda?

A Well, we had some good meetings. You know, we

had at least one, if not two, meetings where I really gave them an education as to what I was -- what I did and what I was doing.

And so, you know, I say good meeting, because I think that I was successful in educating them. I think they got it. And I think that they were very happy to have me on board.

Q Okay. When roughly did these meetings take place?

A Probably right around this -- you know, this -- this April, you know, '07 area and then maybe later. So I would say mid, you know, Q2, Q3 of '07.

Q Okay. Did you explain to them, kind of, what you were seeing or what -- what results you had -- or what conclusions you had come to?

A Absolutely. I mean, you know, again, I think as a consultant and not wanting to ruffle feathers I think that I tried to keep, you know, the focus on -- you know, numbers previously were inaccurate for whatever reason. Let's not dwell on it. It's the past. I'm putting in a better, tighter, more reliable process to make sure that these numbers are accurate and will be accurate on a go forward, so that was pretty much the message I was conveying. I think all the venting and frustration and potential -- this smells like a rat type of conversations were kept off the record between Mark Stys and myself.

Q Okay. And that was the function of your

concerns about client relations?

A Absolutely. Yeah. I mean, you know, people aren't going to renew your account if they don't like you.

Q But you think it was made clear to the compliance team that the previously numbers were inaccurate?

A Well, again, you know, previous numbers, to be clear, at this point in time I had only looked at '06 and the fourth quarter of '05?

Q Right.

A So from the fourth quarter of '05 through '06, yeah, it was made clearly that previous numbers were not good.

Q Okay.

A It was made clear to compliance that those numbers were not -- that the '06 numbers -- which again, I think is why they were waiting for me to -- everyone was hot for these '06 numbers, for whatever reason.

Because I think marketing wanted to run with them, because everyone wants recent track record, you know, from marketing. And compliance was shutting down marketing at that point saying, no, wait until Steve is done. Wait until I see them in and bless them and then you can, you know, do what you want with them, because everybody feels good about it.

That was my -- I mean, I'm speculating, but based upon the calls and e-mails I was getting from the marketing guy and from the compliance folks, is they wanted these '06 numbers yesterday, and they wanted my numbers as opposed to whatever else they may have had.

Q Okay. I think I've seen some e-mail traffic on some of these. Issues. Explain what you mean by compliance was shutting down marking.

A Well, I think, you know -- I think there is -- that compliance had a sense that anything marketing had received prior may not be accurate based upon meetings with me, and so compliance didn't feel comfortable and marketing using anything other than my numbers.

Q Okay. So did you get the sense that compliance wanted on a go-forward basis to use your numbers?

A Yes.

Q Okay. Was there discussion with compliance about, you know, whether they could use pre-2006 numbers?

A We didn't talk about it.

Q Okay. But you told them that the model numbers that you had gotten from IAG were inaccurate?

A Yes.

Q Okay. And were there discussions about wanting to wait to get your numbers before compliance would sign off on 2006 performance data being released?

A I'm sorry. I didn't quite understand that question.

Q Okay. Was the gist of your conversation with compliance that they did not want to let -- was -- was your understanding that compliance was of the opinion that 2006 performance should not be released until your

Riordan_Steve_20090211.txt

work was done?

A Correct.

Q Okay. And again, you base that on discussions with whom?

A Discussions with compliance.

Q Okay.

A I mean, I think I got them on board, you know, through an educational meeting or two as to the accuracy of my numbers versus the numbers that they had seen previously. So I think I had probably, at least, given them preliminary numbers that, you know, probably varied from what they had seen coming out of IAG to at least make them say, you know, stop the presses.

Q Okay. And then on the go-forward basis, what is your interaction with compliance?

A Well, I started to include them every time I put out, you know, quote, unquote, audited numbers.

Q Right.

A So I think that the jargon around the firm, you know, with my guys that I had placed in performance, the compliance folks, Mark Stys, Zack Parrish, Jason D'Amto, we started out speaking of this sort of concept and notion now of the audited number. And audited meant that I blessed it. You know, third-party, independent objective person with expertise came in and blessed the number. That was our audited number.

So from -- from pretty much that -- that April, '07 date which -- which was, you know, had data up through December of '06. Right. So we were about a

Riordan_Steve_20090211.txt

quarter behind at that point, and that was a concern of mine at the time, because I was behind and I knew that I had to get caught up to Q1 of '07 ASAP, but that's when everyone started talking about this notion of audited numbers. And that's when I started including everybody each quarter end as the -- the books were closed on previous quarter, I would blast an e-mail out to Mark Stys, Zack Parrish, Shenna George, Rhonda Davis, Jason D'Amto each quarter end from that point forward and say, okay, these numbers are blessed by me.

Q Okay. Anybody else from compliance that was in the loop?

A No. Not to my recollection. I think my -- if you checked my e-mails, my distribution list would be Shenna and Rhonda.

Q Okay. Did you ever have any conversations or do you have any reason to think more senior people in compliance were aware of these issues?

A It didn't make it into my world.

Q Okay. No conversation was Jane Bates?

A Oh, well. Jane -- Jane was Rhonda's predecessor.

Q Okay.

A And she was out of the picture before we got to a much better place, I guess for lack of a better word, as far as performance. So when Jane and I were talking I was still figuring things out.

Q Okay.

Riordan_Steve_20090211.txt

A I didn't have any -- I didn't have -- I don't think I had come to any firm conclusions while Jane was still resident.

Q Did Jane express any concerns to you?

A Yeah. Absolutely. I mean, I think Jane's biggest concern was that Jose didn't know what he was doing. That may have been a quote.

Q So fair to say that Jane had concerns about the accuracy of Jose's work product?

A Well, I think, you know, my honest opinion is that I think when I arrived and Jane and I had -- had just a short window of overlap, I think people were confused. People that, you know, didn't -- didn't have -- it was confusing to me, and I had 12 years of performance under my belt.

So if you have a rudiment -- you know, rudimentary knowledge of performance, you would be genuinely confused. And I think Jane was confused, because she's seen a number from Ken, she's seen one or more numbers from Jose. And at the end of the day all those numbers should be relatively, and they weren't.

And so -- yeah, I mean, I can't tell you how many times in the early days that people like Jane said, thank you, God, you're here.

Q Okay. I think one story you mentioned to us in Boston was something about Jane Bates blocking the distribution of account statements for some period.

A Yeah. I don't know if she -- if blocking it is the right word. I know there was concern about fulfilling the obligation in the client agreement to report at least quarterly performance. And I know that Jose was backlogged with, literally if you walked into his office, boxes of statements that he was holding back. So I don't know really who had the final authority as to whether the client received a performance report or not.

Q Were they being held -- were the statements being held back over concerns about whether or not they were accurate?

A Yes.

Q Okay. And how do you know that?

A That's exactly what, you know, Mark Stys and Jose Flores and Jane Bates all, you know, verbally communicated to me.

Q Okay. And was the source of concern the fact that there were essentially three different sets of numbers?

A Three or four, depending upon who you asked.

Q Okay. And that they didn't match?

A Correct.

Q We talked a minute ago about compliance shutting down marketing or limiting the distribution of marketing materials.

A Uh-huh.

Q And you said you had that specific conversation

with compliance, correct?

A Uh-huh.

Q Is that a yes?

A Sorry. Yes.

Q Okay. What about from the FAs or from the investment advisory group, were you getting pressure to get your numbers done so that they could use them?

A Probably indirectly through Mark Stys. I think, you know, the FAs would communicate with -- with Mark Stys and Mark would -- would come to me and say when can we get, you know, good latest numbers.

Q Okay. And did you take from your conversations with Stys that -- did you reach the same conclusion based on your conversations with Mr. Stys that they were holding out marketing materials waiting for you?

A I think we were all of that general understanding, yes.

Q Okay. Just to tie a few issues up before we go to lunch.

Aside from recordkeeping issues and some of the, you know, rebalancing issues that we talked about before, what -- what was your general assessment of the performance reporting function when you got to the company?

A That -- That they were understaffed and didn't have the appropriate experience and skill set to -- to run a performance reporting operation of the size and scope of a Stanford. I think I was on the ground for two weeks maybe when I made a case to Mark that I needed

another body to help them get to where they wanted to be.

So I recognized immediately that we needed resources to fix the problem, so that's when Rob Baker was brought in.

Q Okay. Was one of your concerns also that the investments advisory group was calculating their own performance?

A Well, I think that was Mark's concern and probably one of the driving forces towards bringing a guy like me in or -- or his initial urge to hire a senior manager in performance, and he ended up with me. But, yeah, I think that was a concern of Mark's.

Q Okay. And is -- is part of that concern so what we talked about earlier today about grading your own cooking to a degree?

A Absolutely.

Q And again, I don't want to belabor the obvious, but why -- why is that concern as -- from a reporting expert's perspective?

A Well, you know, you want that independent objectivity. That's one of the selling points of my firm. You know, I've -- I've got hedge funds calling me know, the ones that are still standing that want their track record recalculated by an independent objective firm.

And so even within a firm I think, you know, it makes sense, and in my experience, the -- the performance function is always separate from the

investment management function. I think a very diligent firm will calculate their own performance just to keep the performance group honest. So you have a check and -- a really diligent firm will have a check and balance where you have a performance group calculating and independently, and that's what is the book of record or that's what's, you know, going to end up in marketing and -- and what's going to end up reported to clients.

And then you have the -- I'm sorry -- the investment management group calculating it for internal purposes only I think I advised Mark on that when I first arrived on the scene, is that anything calculated in that group should be for internal purposes only, because if do it that way and you have a calculated performance group, then you have a natural check and balance and the investment manager can challenge the performance group and say, hey, you're number is wrong, and the performance group can challenge the investment manager and say, hey, no, your number is wrong, and then get to the right number. That's what a diligent office would do.

Q Okay. Just to close few more issues out before we take a break so we'll have clean starting point after lunch.

We talked about you completing your 2006 analysis in roughly mid 2007?

A It depends upon what part of the analysis, you know, you're speaking of. I completed model returns for '06 in April of '07.

Q Okay.

A I didn't complete composite returns probably until very late '07, maybe even '08, because we had to build a tool to do it and that took probably three or four months.
Q Okay. And -- And then when did you complete 2005 in terms of the composite returns?
A I believe I did that in March of '08.
Q Okay. And is that when you sent out the three-year composite returns?
A Exactly.
Q Okay. When did the discussions about getting a three-year composite begin?
A Probably from, you; know, mid 2007 -- yeah, probably right around second or third quarter of '07. Because I remember Mark telling me he wanted it ASAP, and I told him that it was a lot of work, which is why he ended up not getting it until March of '08, because I was -- I said I only know one way to do it and that's the right way, and that's how long it's going to take me. Well, I said I would probably try to get it a little sooner than -- I think I delivered later than I said I could, so I under-delivered a little bit.
Q Okay. And did he convey to you why he wanted the three-year track record?
A Yeah. I believe that, you know, they wanted to get this SAS program, you know, on more people's radars and, you know, people aren't going to talk to you without, you know, a three-year track record. I think

that was the gist of his rational.
Q When you say people aren't going to talk to you, are you talking about --
A Potential investors. So if, you know, you want to get into a manager search universe of one of the larger firms like a UBS or Merrill or something like that, then -- then you need a three-year track record.
And I think the fact that, you know, Mark was adamant about composite returns to -- to give as a three-year track record, when he had a three-year track record of a hodge-podge of model returns, he could have rolled with that. And I think, you know, testament to him, he didn't want to. He wanted a three-year composite track record.
Q Okay. And you took it from your conversations with Mr. Stys that he didn't want to use the track record that he had gotten from friend IAG?
A Correct.
Q And he wanted a more reliable product like yours?
A That and just the fact that people are going to ask him, hey, is this model a return or a composite return and, you know, composite return carries a lot more weight.
Q Okay.
A Or confidence, I should say.
Q Right. Was there every any discussion of the use of the track record as a recruiting tool?
A Not from me.

Q Okay.
A No. But I would think they would if it was good.
Q In order to recruit other financial advisers?
A Yeah, yeah. I could see that being a recruiting tool, I guess, sure.
Q In other words, come here, we've got good products for you to sell?
A Exactly.
Q We've got a great track record?
A We've got the bank's CD.
Q Right.
A Yeah. I mean, if your financial advisers don't want easy products to sell.
Q Right. So, I mean, essentially in marketing these things, these types of programs, these types of strategies, I mean, is it generally all about the track record? Is that what clients are drawn to?
A Yeah. I would -- I would think so.
Q Okay. At the end of the day, that's what the clients want to see, right, is the track record?
A Yes.
Q Okay. Okay. I think when we come back after lunch we'll pick up with some issues related to the FA complaint.
A Okay.
Q And then walk through some of your composite procedures and your conclusions, and then hopefully we

won't -- we won't have too much more to do after that.
A Okay.
MR. KELTNER: So let's go ahead and go off the record at 12:32.
(Whereupon, at 12:32 p.m., a luncheon recess was taken.)

A F T E R N O O N S E S S I O N

MR. KELTNER: Let go back on the record at 1:08. Okay.
BY MR. KELTNER:
Q During the break, it came to my attention that we may have inadvertently failed to swear you in as we were going though the outline, so let's go ahead and do that for the remainder of the day.
Mr. Riordan, could you state and spell your full legal name for the record.
THE WITNESS: Sure. Stephen Riordan, s-t-e-v-e-n, R-i-o-r-d-a-n.
MR. KELTNER: Okay. Could you please raise your right hand?
(Witness sworn.)
MR. KELTNER: Thank you. The testimony that you offered this morning prior to our break, was there anything to your knowledge inaccurate about that statement -- that testimony?
THE WITNESS: No.
MR. KELTNER: Okay. Okay. And was it truthful?
THE WITNESS: Yes.

BY MR. KELTNER:
Q Thank you. Okay. Let's pick up with a few documents, and then talk about the -- in a little more detail about the issue relating to complaints from the FAs about performance issues.
I understand there was a meeting in March of 2007 at which you may have presented some findings; is that correct?
A Correct.
Q Okay. So I just wanted to go ahead and mark a few things as exhibits that kind of tie those issues down with respect to date.
(SEC Exhibit No. 31 was marked for identification.)
BY MR. KELTNER:
Q I'm marking as Exhibit 31 an e-mail from Steve Riordan dated Tuesday, March 20, 2007, to Zack Parrish copying Mark Stys, and the subject is FW presentation for FAs. And it appears to have attachment entitled performanceassessment.zip and one entitled presentationsupplement.zip.
(SEC Exhibit No. 32 was marked for identification.)
BY MR. KELTNER:
Q I'm going to mark a separate document as

Exhibit 32, which appears to be a copy of the performance measurements spreadsheet that was attached to Exhibit 32. I'm going to ask you to confirm that. And I will just represent to you that Exhibit 31 -- Exhibits 31 and 32 -- well, Exhibit 32 came from your production. Exhibit 31 came from another set of e-mail that we had.
On Exhibit 31, let's go ahead and remove the second page, I think it was inadvertently copied with -- the second page was inadvertently copied with Exhibit 31. So you can go ahead and remove the second page?
A Okay.
Q So Exhibit 31 is now just a one-page document. What is Exhibit 31?
A Exhibit 31 looks like an e-mail from me to Zack Parrish and Mike Stys on March the 20th, 2007, with two attachments, performanceassessment.zip and presentationsupplement.zip.
Q Okay. I will represent to you that Exhibit 32 is found in the electronic materials that you produced to us entitled -- and it had the name performance assessment attached to it. Looking at that, does that Exhibit 32 appear to be the presentation materials that you prepared?
A Yes.

Q Okay. And just for the record, what are you looking at next to Exhibit 32? Is that just another copy?
A Looks like the same thing.

Q Okay. Did you get two copies?
A Yeah. And just to clarify, this was not nearly entirely my work. This was a collaboration between myself and Mark Stys.
Q Okay. One question I had was Exhibit 32 appears to be the -- the document that you e-mailed to Mr. Stys, who did the initial draft of Exhibit 32?
A Mark did.
Q Okay. And then he sent it to you for your input?
A Exactly. Yeah. I filled in some of the numbers, you know, slides that have numbers on them. Most of that text, if not all, was written by Mark at least originally. I may have edited some of the language. My most significant contribution would be the slides that have numbers in them.
(SEC Exhibit No. 33 was marked for identification.)
BY MR. KELTNER:
Q Okay. I'm going to go ahead and hand you a document that I'm marking as Exhibit 33, it's another

version of Exhibit 32. We believe this is the final version, because we got it from an attendee at the meeting that took place on March 28th, 2007. So just generally, have you seen Exhibit 33 before?
A Let's see. I would say, yes, because I was at that meeting.
Q Okay. And just for the record, can you

describe for me what Exhibit 33 is.
A Sure. It is the presentation from the meeting with the FAs to go over, you know, differences between accounts, models, and composites, and also I think the other intent of the meeting and the other slides within Exhibit 33 and 32 is to, you know, communicate a message to the FAs that, you know, we're on a new and improved track for, you know, accurately reporting on a go forward.
Q Okay. So an attempt to allay the concerns of the financial advisors?
A Exactly.
Q Okay. And I think we talked about this morning quite a bit, the FAs were not the happy about customer accounts not meeting the model performance.
A Correct.
Q So let's talk in generalities first. Who led had March 28th, 2007 meeting?

A For the best of my recollection, I think it was probably led primarily by Zack Parrish, or at least kicked off by Zack with, you know, Mark Stys being -- being also a leader of the meeting.
Q Okay. And Mr. Parrish was he the head of Stanford Capital Management?
A That's my understanding.
Q Okay. The next person down the chain from him was that Mr. Stys?
A At least one of Zack's direct reports was Mark.
Q Okay. And where does D'Amto fit into the

picture when you're doing your or work?
A At this point in time Jason reported -- Jason D'Amto reported to Mark Stys.
Q Okay. So the chain goes D'Amto to Stys to Parrish --
A Correct.
Q -- in March of 2007?
A That's correct.
Q Okay. Did you have discussions with Mr. Parrish leading up to this March 28th, 2007 meeting?
A I believe so. I can't remember exactly, but I would imagine that Mark and Zack and I probably at least talked this through prior to the meeting.
Q Okay. Did Mark seem -- sorry. Did Zack Parrish have an understanding of the performance reporting issues prior to this March 28, meeting?
A You know, I didn't have a lot of direct contact with -- with Zack. Mark would be -- better be able to answer that question as to what he -- he knew or didn't know, because most of my communication was directly with Mark.
Q Okay. But you think you had some kinds of -- some kind of pre-meeting with Parrish and Stys before the March 28 meeting?
A I think we may have.
Q Okay. So tell me what you can remember about this meeting. How did it open up? What happened?
A Well, you know, it's a little fuzzy on the

details, but I recall Zack sorts of kicking it off. You know, I remember, you know, probably most vividly what related directly to me about the meeting, and so I remember Zack introducing me. Because I hadn't met most or, if any, of those folks, maybe had met one of them. So he introduced me, talked about my background as a performance person and, you know, why they had brought me in and sort of letting them know that -- that Stanford and Zack and Mark specifically were taking the appropriate steps to get performance and reporting, you know, on a -- on a better track.
And then, you know, I would -- I would imagine Mark started to walk through the slides until it got to my piece, and then I presented my piece as sort of an educational type of track or tact, I should say. And that's essentially what I tried to do is I -- the supplement to this, we -- we haven't broken out yet, there's an Excel spreadsheet supplement -- it was called presentationsupplement.zip.
Q Yeah. I don't think I've got it here, but I've seen it. It appears to be a breakout of certain accounts that were identified by the FAs; is that correct?
A Exactly. Yeah. And that was a key piece, you know, that formed the entire basis really of my part in the presentation was to walk the FAs through that spreadsheet as part of the their education where I proved to them selecting example accounts from the universe that they provided that they felt were issues. I had explained to Mark Stys previously that you're going to

spend a lot of money and I'm going to spend a lot of hours if you want me to prove out every single account for a year. That's a lot of work.
So I personally selected accounts that I thought were the most egregiously off and chose specific months within those accounts that were egregiously off where I could prove to the FA that the account level of performance was, in fact, correct and that the tracking error was a result of two things. One, was model calculation error, and, two, was that the account didn't exactly hold the model.
Q Okay.
A So that spreadsheet was key to my piece in the presentation.
Q Okay. Before we get into the details. Who else was at the meeting?
A From my recollection, I know it was Charlie Rawls for sure, I think Mark Grossbeck was there, and there may have been -- I think Jay Comeaux was there and maybe one or two other people that I couldn't name.
Q Okay. Did you mention Mark Tidwell?
A I'm not sure if he was there or not.
Q Okay. What about Doug Shaw?
A He was there.
Q Okay. How about Nancy Bramley?
A I don't recall any women in the room.
Q Okay. What about Don Miller?
A Never heard of him.

Q Okay.
A Dawn as a woman or Don as a man?
Q D-o-n, Don as a man.
A No, but I think he is the big guy down in Memphis, the fixed income guy. He wasn't there. If that's -- if that's who --
Q Okay. Roughly how many people were at the meeting?
A Seven.
Q Okay. Is the room relatively about this size, a bigger room?
A Yeah. Standard conference room.
Q Okay. Was there anybody from compliance present?
A I don't believe so.
Q What was the reaction from the FAs to the meeting?
A I thought it was very positive. I -- you know, from my perspective, I thought I saw lightbulbs go on around the room as I walked them through the numbers, and it appeared to me that they were getting it and that they were understanding. And that I felt confident that they were feeling confident that we were addressing the issues and that we had a good plan for our go forward.
Q Okay. Was the concern approached from the question of whether the model was overstated or was the -- was the question whether the client performance was accurate? What was the focus?
A That's a good question. I mean, I think --

well, from my perspective, I think that -- that the FAs were concerned that their clients were receiving inaccurate performance, and I think we allayed that fear. You know, and that was one of the main points I wanted to make, you know, because if you recall, we're in a period now where -- were client reports are being suppressed or not sent out, there is a lack of confidence among, you know, operations and compliance about the accuracy of -- of client reporting, yet at the same time they're concerned about fulfilling their contractual obligation to report.

And so one of the points I wanted to make at this meeting, and -- and not to neglect mention that I think FAs also have a say in whether the client gets the report or they're -- they're able to -- they were a component of the review process where client reports would be sent to FAs, and if the FAs didn't think the report was accurate they could suppress it or -- or stop it from going out.

So what I was trying to get was a place where people felt good about the client numbers, so the examples I used that day proved out client returns to be accurate.

And again, the tracking error was related to model calculation error, and they selected accounts,

the FAs that gave me the universal accounts to look at, they gave me accounts that didn't exactly hold the model, which was the other source of tracking error. So when we found accounts that truly held the model and we had an accurate model calculation the numbers were in line.

So I think from the FA's perspective they wanted to get that confidence that the reports that their clients were getting were accurate.

Q Okay. So when say the -- when you say found accounts that were in line with the model, the numbers matched is that including or excluding the bad math error or the inaccuracy in the model?

A Well, you had to take the bad math out to get a match, because what I'm saying is and findings were, and they're still consistent to this day, is that Advent and AXYS were doing their job, account level returns were correct and any -- any results that anyone had -- had seen that didn't match account level returns were for the two reasons of tracking error that I mentioned.

Q Okay. So when you're comparing and when you're explaining to the FAs that, in fact, account level data did hold the model, you were referring to the corrected model?

A Correct.

Q Okay.

A I had to remove the model error in order to tie numbers.

Q Okay. And we talked about from your management's perspective was the primary goal of the

meeting to allay the concerns of the FAs?

A Yes.

Q Okay. We talked about in this in Boston a little bit, is it fair to say that the emphasis on the meeting was on the accounts failing to track the model as opposed to the bad math or the math error?

A I believe so, yeah.

Q Okay. And why was that?

A Because from my perspective I don't think anyone was trying to call investment management out for overstating, at least not to my knowledge. I think, you know, from -- again just from my perspective, I think that we had performance resources on board on -- on at Stanford that were -- were not able to get any confidence from the FAs, so they were talking to people that weren't experienced with performance and couldn't explain why things were as they were.

So I guess to make a long story short, I was the first person that was able to come in and be able to articulate and prove the numbers out and, you know, show evidence, which I think raised everyone's confidence level. So to make my point is I don't think that the gist of the meeting was to call investment management out on over -- intentionally overstating.

I think the purpose of the meeting was, you know, do we have our arms around this whole, you know, process of performance reporting? Can we -- Can we do it right? Have we been doing it right? And, you

know, can I be confident that my clients are getting a good number?

Q Okay. But was it also made clear at the meeting that at least some component the difference was comprised of math error or, you know, inflammation of the model?

A I had to have touched upon that. I can't say with a hundred percent certainty, but I can't imagine that we would have neglected to convey that.

Q Okay. Were there any FAs that didn't seem to be accepting the explanation?

A I didn't see any, no. I mean, I didn't get a lot of questions.

Q Okay. Were there any questions about, you know, just of kind of whether joking or serious about, well, why is it that, you know, the model is always on the high side? Anything like that?

A I can't say for sure.

Q Okay. But it may have happened?

A It may have.

Q Let's go ahead and walk through Exhibit 33 quickly again. And again, we think Exhibit 33 is the version of the performance measure -- measurement and reporting presentation that was used on March 28th of 2007. Okay?

So we'll just go through it in order, for lack of a better term.

A Okay.

Q So the strategic plan slide, is this something

you put together with Mr. Stys?
A Yeah. And -- And again, I would probably that he -- he wrote it and then I edited it.
Q Okay. So the first bullet point says, establish an independent performance measurement group. I guess that was going to be your role?
A Well, it ended up being my role. I mean, I recruited the team.
Q Okay. So are these improvements that -- that you -- these on page two of Exhibit 33, are these improvements that you recommended?
A Absolutely.
Q Okay. So to summarize a lot of this, it seems to be suggesting improved controls, improved accuracy around the reporting process?
A Exactly.
Q Okay. Like, for example, it say implement proactive controls and audit review and approval process. You know, kind of impractical steps. What does that mean?
A Well, basically it's to, you know, catch mistakes earlier in the process, you know, if -- if there are accounting level mistakes at the account level, you know, put -- put a process in place where, you know, you're -- you're catching mistakes as they occur at the accounting level, the performance group is then -- has a process for reviewing returns and then further an approval process where, you know, essentially the FA is

signing off and saying, you know, send -- send the client statements out. Let them rip.
Q Okay. The statement about improving timeliness and accuracy in performance reports, was that, I guess, the ultimate goal?
A Absolutely. Yeah. That's -- That's the goal of any performance group.
Q Okay. And the standardized auditable process, you're talking about something that's transparent and can be tested?
A Yeah. I'm not exactly sure what our meaning was here on this particular bullet. You know, I think -- you know, some of these assets -- you know, this -- this might be speaking to the -- like, the -- the coins and bullion, but I'm not-- I'm not entire sure what we're getting at with that bullet, to be honest.
Q Okay.
A But you do want a standard source, a standardized source of data such as pricing, you know, and I think -- I think we're getting at -- you know, are we got good valuations on our statements.
Q Let's go ahead and skip to the slides on your findings that were presented to the staff, at least at the high level.
A Okay.
Q So we're on a page entitled findings fees model versus composites. So the first bullet, what does that say?
A Model performance varies from account

performance.
Q Okay. So obviously that was one of your preliminary findings after, you know, you had done the work reflected in Exhibit 30? This is Exhibit 30 from earlier.
A This is probably pertaining to a subsequent analysis that I performed. This is probably speaking more to the analysis that I did specifically for this meeting and was in that supplement presentation supplement.
Q Okay. So the specific 30 some-odd accounts that had been identified --
A Exactly.
Q Okay. And then, again, I think we have talked about this before, you highlighted two possible -- well, I guess, you have got a couple of reasons here variance in holdings and timing of addition or subtraction of cash into the account, so those two issues are, one, it doesn't hold the model in terms of holdings, correct, in an account?
A Right.
Q And the second would be this timing issue with respect to, you know, when money comes in and out of the account?
A Right.
Q Okay. So what would an example of that be?
A Well, you know, if you have significant flows coming into or out of the account level, it is going to

skew your numbers a little bit because a model never has any cash flow, so the model is pure. You can get a pure, you know, return, whereas, when you have cash moving in and out of the account and when it actually gets invested in the model is going to concrete some noise in your numbers.
Relatively small unless, you know, the cash contribution or withdrawal is -- is very significance relative to the size of the account.
Q Okay. And again, you know, obviously what seems to be left out of here is the math error or the inflation in the model. Is that because your analysis here was done with a corrected model?
A I think that was sort of the intent was to -- you know, we didn't want to belabor the point that that model math was wrong, because you can't really even start to perform an analysis of account versus model and which is correct until you have, you know, a right model -- or how far apart they are until you have a right model.
So if -- if I had included that, it would have just, I think, done more to confuse than to educate, which was my goal.
Q Okay. And we think the math error may have been discussed, and it may be highlighted by some notes on the following page. Do you see the next page, Findings. How are we doing? Let's start -- Can you explain to me what this page is intended to portray?
A Well, I think, you know, the question here is -- and I don't remember, it may be on the next page.

But did we use, you know, my calculated model or the previously calculated model by IAG to get these numbers. So was the account level tracking error versus the restated model or the original model. I'm guessing that it was probably against the restated.

Q Okay.

A Because, again, that was the point I was trying to make is -- is first of all, let's compare these accounts to the actual model rather than an errored model.

Q So just stepping back for a second. Generally, this page entitled, Findings. How are we doing? It's intended to portray, I guess, the extent of the error in -- in the accounts that you analyzed versus the corrected model?

A Exactly.

Q Okay. And these notes at the bottom, which I will represent to you were taken by an FA at the meeting, it says theoretical one does not include the 90 basis points of bad math. Is -- And then -- so, I mean, given that note, do you think you probably had some discussions at the meeting saying this isn't the whole picture?

A Yeah, absolutely. Someone probably chipped in and said, well, you know, there is -- we're seeing a lot more than what these numbers represented, you know. And

they're -- they're -- they're looking at the old model, the -- the errored model.

Q Okay. And so you see on the line that says greater than 100 basis points?

A Yes.

Q Okay. So number out at the far right-hand side of the page the 10 percent, is that reflecting that only 10 percent of the accounts you analyzed had one than a 100 basis points of difference from the model?

A With the restated model, yeah.

Q Okay. And then there is a note here, if bad math included 25 to 30 percent per Riordan, misspelled your name, but per Riordan.

A Yeah, I will forgive them for that. Then that is right. So that makes sense to me that, you know -- and I would have to, you know, see if I -- if I had spreadsheets where I -- where I ran these numbers against the old models and if I'm -- if I'm making a quote like, then I probably did. And, you know, if -- if we're looking it the SAS growth model, you know, I would want to go back to Exhibit 30 and see if I could get an understanding of -- of about how much, you know, we would revise the model and --

Q Well, I think you could -- you might be able to flip to the following page and we may be able to see that. It's a page entitled Performance Composite Versus Model.

A Okay.

Q And there is a composite return column with a

12 month average of 14.54, and then a model return of 15.55 in the middle of the page.

A Yep.

Q And then a restated of 14.65.

A Right.

Q Okay. I will tell you I think the 15.55 is the number, the model number, that they were using in advertising.

A Okay.

Q It looks like the 14.54 that would be a composite that you calculated for 2006?

A Right.

Q And so the restated number would that appear to you to be the corrected model number?

A The 14.65.

Q Yeah.

A Yes.

Q Okay. And so the difference between 14.65 and 15.55 appears to be 90 basis points?

A Correct.

Q Okay. If you flip to the prior page, Findings. How are we doing? This is theoretical and does not include the 90 basis of bad math.

A Right.

Q Okay. So do you think the -- the difference between the numbers on the following page, the 14.65 and 15.55 is that same 90 basis points of bad math?

A Absolutely.

Q Okay. So after you make your presentation and, you know, have obviously talked about the -- the different factors that may be driving differences between the model and the actual account performance, what discussions were there about, you know, what happens going forward?

A Actually, can I just point out one thing --

Q Sure.

A -- before I answer that question? Is looking at the page that's Performance Composite Versus Model.

Q Uh-huh.

A There are a few months where the restated model did go up.

Q How many?

A June of '06, it went up two basis points. August of '06, it went up two basis points. October of '06, it went two basis points. November of '06, it went up 14 basis points. So for this particular model for this particular time period it wasn't a hundred percent swing the overstated way.

Q So there were a few months where it went up by less than 14 basis points?

A Yeah. There was just a few months where I restated it did go up.

Q Right.

A I just wanted to point that out.

Q But on an annualized basis the model was high by 90 basis points?

A Correct.

Q When I say the model, I mean the pre-restatement model.

A Correct.

Q Okay. So getting back to my question. What discussions were there about what we're going to do going forward?

A I think it was all about, you know, moving towards composites, and I think I probably did a little education piece during the meeting on composites and why they're better and how to completely eliminate this problem. If we're marketing composite performance versus theoretical model performance.

Q Were there any discussions at this meeting, or if not outside this meeting, regarding what to do about pre-2006 numbers?

A No. I mean, even if you read the -- the last bullet of the final page of the presentation, it says, we will consider restating 2006 for all model portfolios. So I think that really indicates where our focus was.

Q Okay. Are you -- Are you confident of that sitting here today, or do you not just not have a recollection of it?

A I'm fairly confident just because, you know, I can say with surety that until I got the marching orders to get a three-year track record as of the end of '07 it never came across my desk to worry about any history.

Q Okay. So if -- if -- if a financial adviser who was present at the meeting had -- had a recollection

that there was a discussion about what to do about the pre-2006 track record, would they be mistaken?

A I think so.

Q Okay. Were you ever asked about how they -- what -- what they could do to secure the pre-2006 track record aside from, you know, doing your composites?

A Yeah. I mean, I don't know if it came up at that meeting, but, I mean, I definitely was consulted with on, you know, how to get accurate performance historically. You know, I think one of the challenges that we had was -- was being able to get at the account level data especially post Bear Stearns conversion, that was a big part of it where, you know, nobody seemed to be very confident that we could get account level data to build composites back pre-Advent, so at the end of the day all of the composites as they stand today are from -- are post-Advent, you know. It's all Advent data.

Q Okay. Were there any discussions about, you know, putting the stake in the ground from 2006 forward and, you know, using your data and not using the earlier track record?

A There may have been.

Q Okay. What -- What do you remember about that?

A You know, I may tune out or glaze over if they start talk about, you know, FA pitch books or whatever. I mean, you know, my work was very focused. I think, you know, any talk about what they are going to market or not market or what they're going to have in a pitch book or not would be FAs and -- and Zack Parrish and Mark Stys

engaged and Riordan on the sidelines.

So I might have been thinking about, you know, where I was going to dinner that night or something.

Q Okay. Did you say anything like, I feel good about 2006 forward, but all bets are off as far as accuracy goes for the prior periods and no one can even verify it?

A Is -- Is that a quote? I don't know. I can't honestly recall.

Q Okay. Does that sound like something you might have said?

A Yeah. Probably, yeah. I -- I mean, I can say this with surety that I would tell Mark and probably Zack is that, you know, the only numbers I will stand behind are the numbers that I calculated myself. Any number not calculated by Riordan Consulting, I have no confidence in, from what I had seen.

Q Okay.

A That -- That I can say.

Q Okay. Did you say anything like the models are all overstated?

A Well, I mean, that ended up being a fact I think at least in '06. And I don't that we ever really looked hard at '05 other than Q4 of '05, which I did when I first arrived on the scene, but, I mean, you could take at '05 composites as they are today and compare to marketing materials and make that assessment. I know for

a fact that -- that certain models in '06, if not all, were overstated.

Q Okay. Did you say anything like the restated models calculated by me is absolutely correct, the previously stated model was not done by me and was incorrect?

A Sure.

Q Okay. Were you ever -- Were you ever consulted about using a disclaimer in association with the pre-2006 track record?

A No.

Q Okay. Are you -- go ahead.

A I think -- I mean, I have been consulted with in general as to what kind of disclosures and disclaimers they should be putting on this stuff. And, you know, I definitely would have told Mark that if -- if you're showing model, you know, make sure that you say it's a model.

Q Okay. How would you do that?

A What in a footnote? How would -- How would I do what?

Q How would you disclose that it's a model performance?

A Well, you would say that the date, you know, of -- of what the model or what -- you know, let say if you have a mixture of composite and model, you would want to explicitly state which time period was model.

Q Okay. And when you say model, are we talking about model with the benefit of hindsight or model as in a trackable model?

A Well, I think you would to need disclaim that, too. If -- If it's one or the other. You know, I'm not an expert on -- on disclaimers and disclosures, but I have seen a lot of them and I would think that you -- it -- it just makes common sense to me that you would differentiate between a model done with hindsight versus a model that actually existed, you know, without the benefit of hindsight.

Q Okay. And is the net of that that you would want it to be clear to the client which model you were presenting to the client? Is that the result?

A Sorry. Could you repeat?

Q Sure. You know, you were talking about being clear as to whether you were using hindsight or not.

A Right.

Q I mean, I guess the goal of that would be to make that clear to the client or the prospective client?

A Absolutely.

Q Okay. Did you advise them on whether or not they should disclose that, you know, on the same page with the performance results or whether they could put it in a footnote?

A We never really got to that level of detail I think, you know -- I think that ended up in compliance's

court, and I think that at one time or another I may have been asked to review what was going to be the list of all the disclaimers and disclosures or whatever, and I think I gave some feedback on it.

Q Okay.

A Bus that is the -- that's the greatest extent I would have been involved in that.

Q Okay. Are you a disclosure expert?

A No.

Q Did you tell SGC or SCM or any of their employees that you were?

A I don't think so.

Q Okay. Did you convey that message in any way?

A I mean, I think it -- it can easily be assumed that as a performance person I have should be familiar with performance, you know, disclaimers and disclosures, but the reality is that every body's were different. So I don't spend -- I don't spend a lot of time on that. I mean, what their interpretation of my level of expertise would have been implied, not explicit.

Q Okay. Did you -- So you never affirmatively represented yourself as an expert on disclosure?

A No.

Q Okay. In your practice, do you read the SEC rules and regulations on that issue?

A No.

Q Okay. Do you keep up with the no action letters?

A No.

Q Do you follow the enforcement cases?

A No.

Q Okay. Do you know one way or the other what's permissible and what's prohibited in terms of how you present your track record?

A The only thing I know pertinent to track record is the GIPS standards. As a CFA and a CIPM I need to know the GIPS standards inside and out, and I keep a copy on my desk as a reference. But as far as the SEC goes, no.

Q Okay. More generally, if you were presenting model performance with the benefit of hindsight, would you be comfortable with putting that -- putting that performance underneath the title that says historical performance?

A You know, first of all, my opinion on models with hindsight I think they're completely useless and ridiculous and should be at best supplemental information and clearly identified as such.

Q Okay.

A So I have no use for historical models with hindsight.

Q Okay.

A Because I could -- I could create a portfolio by the end of the day today that shoots lights out, you know, for the last ten years.

Q Uh-huh. The key thing being hindsight?

A Exactly.

Q You just pick the top five filings over the last five years and --

A Yeah.

Q Okay.

A Pretty -- Pretty easy to do really.

Q Right. And is the obvious danger that if you do that and then don't tell the client that's what they've done -- that's what you've done the client may assume that that is your real track record?

A If it's not adequately disclosed or disclaimed, then, yeah, I would think that that would be very misleading.

Q Okay. Do you know whether or not the model numbers pre-'05 that were being presented were prepared with the benefit of hindsight?

A I do not know, no.

Q Were there any discussions about that issue?

A No.

Q Was management, Parrish or Stys, at all upset with the FAs for raising the issue?

A Which issue?

Q The -- I should be more clear.

The issue regarding differences between composite -- or the model performance and actual client performance?

A No. I mean, I think that they were pretty frustrated with -- with, you know, general squawking. You know, the FAs were pretty squeaky wheel, that was the sense that I got. They -- They wanted the world, but had no appreciation for what it took to get there, you know, operationally speaking.

You know, if, for example, that was one of my original marching orders is that -- is -- was FA driven is they wanted the total wealth picture in the client's statement and they wanted performance for the total wealth pictures, because frankly the FAs wanted the benefit of this shoot the lights out performance of the bank's CD. So the bank CD is doing double digit returns every year and, you know, that could buoy their accounts upwards if you're able to include that positive performance, especially in -- you know, the majority of the Stanford accounts which were FA managed accounts that weren't in SAS or SAM or any of the other professionally managed, you know, strategies.

If it was just managed by the FA on a consultative basis with the client and a CD is a component of that and maybe in some cases as significant component of that and you're down 10 percent and the CD is up 10 percent, you're at least about to break even.

So that -- you know, that was one of the things that the FA were very vocal about is they wanted to include everything, and that's -- that's a bullet on the last page of the presentation. We have a strategy in place to get to a consolidated reporting capability that is inclusive of all assets classes.

I think Mark felt that it was important enough at this meeting to continue to stress that point

that we're addressing yet another one of their complaints, which is the lack of all assets in the -- in reporting and performance. So, you know, the gist of it is this: Is I think Mark and Zack were trying to build the business, yet they were myriad in, you know, complaints about the past from the FAs and, you know, all the wants and needs of the FAs to have, you know, this type of reporting, this type of access. They wanted more online, you know, Internet based type of access to reporting. They wanted, you know, their marketing in the pitch books to match what the client actually got at the end of the day. I mean, they had some demands.

Q Okay. So that thing about the marketing matching the pitch book, was there concern raised at the meeting that the marketing materials were inaccurate?

A Absolutely, yeah. I mean, I think that was -- was a general issue at the firm is that, you know, a really savvy person could -- could -- if they saved their pitch book could say, hey, this doesn't match, and call the FA out on it.

Q Right. So a savvy client?

A Exactly. A savvy client could have -- could have been like, hey, this doesn't -- this doesn't -- doesn't jive.

Q For --

A Like, for example, let's say they were already in one strategy and they're being pitched another one, so that type of scenario.

Q Okay. So let's say somebody hypothetically

like a CPA is in SAS for all of '06, he gets the '07 pitch book and he sees the SAS performance number of 15.55 and he looks back at his account and he sees that he only got 12 --

A Uh-huh.

Q -- is that the type of thing you're talking about, or is that --

A Exactly, yes. That's the exact thing I'm talking about.

Q Okay. Did anything -- Did anything like that come up at the March meeting?

A No. I don't think anyone went to a specific example. You know, the examples were already given, you know, Mark had passed along to me the 25, 30 some-odd accounts, you know, handful from, you know, this half a dozen FAs that had issue. They picked -- each FA picked a handful of accounts and they all made it, you know, their way to my desk to do my analysis.

Q Okay.

A Of which I selectively chose a few to look at.

Q Okay. So looking at this from two different angles the FAs were concerned, one, about whether or not the actual clients reports are accurate?

A Right.

Q And is they were also concerned about whether or not the marketing materials presented an inflated track record?

A Well, I don't know what their exact concern is,

it's just that, you know, I think from my perspective is every one in the room wanted the numbers to jive, and how are we going to get to that point where the number are in line.

Q Wanted the marketing materials to align with the actual client?

A Pitch books, marketing materials, client reporting, everything should be in line.

Q Okay.

A I think that if we're all on the same team that's what we were all looking to do.

Q Okay. Were any of the FAs expressing concern about potential liability? Like, I'm using this pitch book and the numbers are high, anything like that?

A Not to my recollection. You know, had I known now how important that meeting was going to be maybe I would have paid closer attention to some of the details that didn't concern me.

Q Okay.

A So that would have been a detail that I wouldn't have cared much about I don't think.

Q You wouldn't have cared if the FAs were worried about potential liability?

A Well, I mean, not so much as it just -- it -- it didn't pertain to the job that I was -- that I was working on. I mean, again, I was -- I was very focused on my work versus anything that was done before my time, so to put it in the proper context, I cared a heck of lot less than anything that didn't have to do specifically

with me and my brand new consulting firm.
Q Was there any sensitivity around the materials that were presented? Were the FAs told keep this stuff in-house, or, you know, we prefer you didn't take this with you, anything like that?
A Not to my knowledge.
Q Okay. Was there any discussion that in any way implied should be careful that this doesn't fall into the hands of the SEC?
A Not to my knowledge.
Q Okay. Was there any discussion about not putting performance reporting related issues in e-mail?
A Not to my recollection.
Q But you can't say that it didn't happen?
A I can't say for sure.
Q Making notes for Mr. Stys?
A And myself.
Q That's a yes?
A I need to remember what -- what the touchy issues were.
Q For yourself and Mr. Stys?
A Yes.
Q Okay. So this March, 2007 meeting is over, the next thing you did is that -- as far as big picture issues, is that completing your '06 composites?

A I'm sorry. One more time.
Q Sure. So this meeting is over, the next kind of milestone is -- is that you completing the 2006 composites in mid '07?
A Well, we -- we had a steppingstone before that. I mean, I think if you go back to Exhibit 33 the very last bullet of the presentation is we will consider restating 2006 for all model portfolios.
Q Uh-huh.
A We -- You know, so before I could even get to composite construction I was still focused on model returns.
Q So making sure the model for '06 was accurate?
A Correct, across all strategies.
Q Okay. And then once you got that number nailed down then you moved onto the composite?
A Correct.
Q Okay. Do you know whether or not they restated '06?
A Well, you know, this meeting happened in March -- March of '07, and from our session this morning you recall Shenna George and marketing were anxiously anticipating my work being done at the end of April of '07 --
Q Uh-huh.

A -- which was for all intents and purposes a complete restatement of every model for all of '06. That's what I gave -- I spread that out via e-mail end of April to compliance, marketing, Jason D'Amto, Zack

Parrish, Mark Stys, you know, that whole dispersion list of here is the best numbers, the best of my abilities based upon all the data that I had to -- to give an accurate model performance for 2006.
Q Okay. One last thing on the March 28th, 2007 meeting, were you there for the entire meeting?
A Yes.
Q Okay.
A As far as I know.
Q To the best of your recollection?
A Well, unless there was a meeting before or after me, I was there for, you know, this entire presentation at least.
Q Okay.
A I can't -- I can't say what people were doing when I wasn't in the room.
Q Sure. Okay. So just to kind of put in one place in the transcript when you did what, so you got there, you did some of your preliminary work, you're -- in '07, are you doing the '07 composites on a go-forward basis as -- as the quarters end essentially?

A I believe that is how things went down, yes.
Q Okay.
A In '07, I was actually up to date at least with the current quarter composites. It was the march backwards in time that was going to take longer.
Q Okay. So you did 2007 kind of on a going forward basis, like, end of first quarter '07 you would

take a month or so, or however long it took, do -- and deliver the numbers for the first quarter. And then you did -- you did your review for each quarter of '07, you know, sometime shortly after the end of the quarter?
A Yes. I mean, we got better as the year progressed, but '07 was done in a pretty close to how you would in normal production environment.
Q Okay. And then you also completed '06 around mid '07, somewhere in that ballpark?
A Composites? Probably closer to late '07 or maybe even early '08.
Q Okay. Okay. And then early 2008, is that when you prepared the three-year composites for each of the strategies?
A Yes. I -- I started working on '06 -- or probably '05 we -- they added a few strategies to the mix, too, that I had to do, so we were up to ten strategies. And for four of those strategies I had to do

all three years at the same time. Although, some of them didn't have a full three years of existence.
But we added the ETF. I mean, these -- these -- the original six strategies were mutual fund strategies, and then they added four ETF strategies that I did as far as back as they would go -- or that they existed, so this was all happening in Q1 of '08.
Q Okay. Just to kind of nail down this timeframe I'm going to hand you a document that I'm marking as Exhibit 34. It appears to be an e-mail from Steve Riordan to Mark Stys copying Jason D'Amto, Robert Baker,

Christopher Thuku, and Zack Parrish entitled subject SAS composite history update, if I didn't say it, it's dated January 31, 2008.

(SEC Exhibit No. 34 was marked for identification.)

BY MR. KELTNER:

Q It starts out, I know SAS composite history has been behind the black curtain for sometime, so I wanted to show you-all some progress. Most of the time has been spent building the tools and creating the process to get 'er done not to the mention the time required for maintenance of 2007 numbers, which has recently been handed over to PMRG team for 2008.

I now feel good about the process and the capability of the tools so the remaining SAS and then SAM should move much more expeditiously.

And then skipping down a little bit it says, Please find attached the three-year composite track records for SAS EQ ALT, balanced income and income, also attached are the GIPS compliant required distribution reports.

And then skipping forward, I expect to have the next three growth, balanced growth, and balance done in the next few days. Let me know what you think.

So Exhibit 4 (sic) this an e-mail where you're distributing some of your early work on the -- or early completions of the three-year composites?

A Yeah. This -- This would have -- Exhibit 34

would have been the first time that anyone besides myself would have seen composite -- three-year composite numbers through '07 for any of the strategies.

Q Okay. And so is this also the first time that there would have been composites for 2005?

A Correct.

Q Okay. So you already had '06 in the can, and you were doing '07 on a rolling basis, correct?

A No, no. '06 was -- was only model performance until this e-mail.

Q Okay. So you didn't -- this is your first 2006 composite about performance?

A Correct. I was -- I was staying caught up with '07 and then I had to walk backwards in time to do '06 and '05, because we had -- we had to no recordkeeping to tell me which account was what. We had to -- in some cases, especially for '05, we didn't even know what the model was. We didn't even have good recordkeeping for what the model was.

So I used the account level data to establish the model, so it was essentially a walk backwards through time so we had good information currently in '07. We had models and we had composites. And then I walked backwards in time testing every single account for every single month to make sure that we were grouping like with like for every time period all the way back to '05.

So by the time you get to -- you know, you could maybe have a thousand accounts as of '07, as you

walk backwards in time there may be only be a handful that -- that survive all the way back to the beginning of the strategy.

Q Okay.

A So it was -- it was iterative process and -- and it took -- it took a long time because we did test every single account.

Q When you do the testing that way if there were accounts, let's say in growth for example, where IAG screwed up, they were growth accounts but they failed to track the model. Are all those accounts getting kicked out?

A It -- You know, it's -- it's a little bit more of an art than a science, and I had to use, you know, my discretion, my experience essentially to make some determinations in certain -- you know, for certain accounts and for certain months. You know, the -- the general rule of thumb, though, that we had was -- is that -- this is a managed account program, these accounts should hold the exact same securities as each other that are in the same program.

We gave a tolerance of three and a half percent on either side of weighting, so if the weight target was five an account could be as little as 1.5 and as high as 8.5 from a percentage allocation perspective. If it had some very, very small, like, rights or warrants or legacy type holdings that were insignificant, I would let those pass through.

The goal was to include more accounts -- as many as accounts as possible, because from my perspective I'm trying to get these guys on the road to towards -- towards GIPS compliance and knowing that every account is going to have to be included in a composite, so the more accounts I was able to include the better.

So, you know, I errored on the side of -- of having a little bit more wiggle room and including versus kicking everything out that didn't match to the letter of the law.

Q Okay. But if an account differed in a significant manner from, you know, other accounts in the same strategy, it probably got kicked out?

A Yes.

Q Okay.

A And -- And we have relatively decent spreadsheets that would sort of, you know, illustrate which accounts were included and excluded as of given point in time.

Q Yeah. And I think I've seen some of those showing that, you know, for some strategies we have 5 percent of accounts were kicked out up to maybe have a high of maybe 10, 11 percent for some of the others, does that sound ballpark?

A Yeah. I would -- I would try to quantify it for them and -- and, you know, for me it was useful feedback to IAG to say, you know, a lot of these kick outs, you know, are because the accounts not following the strategy, so this is basically an assessment of how

you're doing from a trading perspective.
But at the same time they also had accounts that were restricted and, you know, had a dollar cost averaging requirements and do not trade requirements that I was not aware.
Q Sure. But were there certain accounts that just, you know, clearly IAG had just messed up on the allocation or messed up on the weighting?
A I mean -- yeah, I would say so. I think I saw significant improvement, you know, as the years progressed even though I sort of did it backwards. But things were much cleaner in '07 than they were in '06 and they were cleaner and tighter in '06 than they were in '05.
And so I really chalked up the inconsistencies I found to lack of experience, lack of process. I know SAS grew very, very rapidly, so I pretty much chalked up the inconsistencies to that.
Q How did the changes in the model go into effect for a given investor? In other words, if you change the mold, is there automatic flow through to the client where their holdings should change?
A Well, automated is -- is subjective, I think. They had a process, I don't know how automated it was, but from all the data that I have seen, and I have seen a

good amount of it, you know, they were roughly in the ballpark of 80 to 90 percent, you know, of rebal on the same date.
And then a lot of times they would catch their remaining -- their remaining 10 percent the next day, or maybe in some cases a couple of weeks later, or in some cases, which caused me pain, not until the following month or months thereafter. So there was -- there was definitely some inconsistencies in -- in the rebals.
(SEC Exhibit No. 35 was marked for identification.)
BY MR. KELTNER:
Q Okay. I'm going to go ahead and hand you a document that I'm marking as Exhibit -- what are we up to now -- 35 I think?
A 35.
Q And Exhibit 35 is a collection of documents, six pages, the, first page is entitled composite dispersion gross of fees, SAS growth January 1, 2005 through December 31, 2007.
Can you tell me generally what the documents are in -- that comprise Exhibit 35?
A Yes. These are produced from the Advent and AXYS platform. It's -- It's the only composite report

that the Advent AXYS platform has. It's a summery of -- you know, it's one strategy per page and it looks like we've got gross in net of fees for three of the strategies, growth, balance growth, and balanced.

Q Okay. And when you say net of -- gross in net of fees, which fees are we talking about? Are these the fees from Stanford or are these the fees from underlying mutual funds?
A These would be Stanford fees.
Q Okay. So the management fee that Stanford charges?
A Yeah.
Q Okay. To calculate the net of fees number -- excuse me -- do you use actual cash flows?
A Yes.
Q Okay. So you show the fee coming out when?
A Exactly as it occurs. It's a cash -- cash method.
Q Okay. So it's not as simple as subtracting 1.25 or whatever the fee is?
A Right. But it should be a good approximation. If -- If you, you know, if the Stanford stated fee for growth, for example, was one percent annually, then approximately your difference in return should be in that neighborhood.

Q Okay. So, for example, on the SAS growth model you see the 2005 composite gross in net of fees?
A Yep.
Q Gross appears to be 8.8 and net is 7.3?
A Right.
Q So roughly is the fee 150 basis points?
A Exactly, yep.

Q Okay. So generally the documents in Exhibit 35 these are the three-year composites you compared -- prepared?
A Right.
Q Okay. And are these the, quote, unquote, audited numbers that -- that -- that Stanford was going to use in their -- for their disclosure purposes?
A It -- It would depend, I would have to see the source, because, you know, these things go through iterations and fine tuning, so I can't say for sure that Exhibit 35 is the final, final unless I knew where it came from.
Q Okay. This is the version that you delivered to Stanford Group -- or Stanford Capital Management, so assuming that fact to be true, do you think it's the final version?
A Yeah. If -- If it was sent to me via e-mail that said, you know, final package attached, then yes.

Q Okay. Did you give preliminary drafts to Stanford Capital Management or did you just give them final draft?
A I -- I may have -- well, if you recall in Exhibit 34 I had only had three done and I sent those. And I don't know if I may have tweaked those after the fact or not. But most likely I tried to keep my e-mail communications to final numbers.
Q Okay.
A For the most part.
Q So if we -- if we got these from Stanford

Capital Management, the odds are that this is your final version?

A Yes.

Q Okay. So just real quickly let's go through the first page of Exhibit 35 just, you know, so we can kind of talk about, you know, what each column represents.

A Okay.

Q Obviously you've year in the first column, composite TWR, that's the total weighted return. Is that what that is?

A TWR stands for time weighted return.

Q Okay.

A And this particular one was calculated using a weighted average of all the accounts within the composite.

Q Okay. And the next three columns do those represent benchmarks?

A Correct.

Q And then it looks like there is some combination of, what? The first one is a combination of, what, S70L30?

A 70 percent S&P 500, 30 percent LUM aggregate.

Q Okay. And the second one is, what, just the S&P or --

A 100 percent S&P.

Q Okay. And what is the LUM aggregate?

A Collection of fixed income securities. It's --

It's probably the most -- It's the S&P 500 for bonds, I guess, would be the best way to put that. It's one of the most widely used bond comparisons.

Q Okay. So it's kind of a good fixed income --

A Exactly.

Q -- benchmark?

A Exactly.

Q Okay. So what's these four columns underneath portfolio average TWR, median TWR, highest TWR, lowest TWR, are these like straight averages so that they average TWR?

A Yes.

Q Okay. And the median is obviously the median and then the high and low are the range?

A Yeah. It's -- It's essentially looking at the universe of accounts that were in for the entire period. For line one you would have to be in for the entire period to be included in those calculations, which is why for 2005 those numbers are same all the way across the board. It's kind of little -- it's not really an Advent glitch, but it is what it is.

They -- The -- The long and the short of it is only one account was in this composite for the entirety of '05, and that's why those numbers are all the same.

Q Okay. So for --

A And the standard deviation is zero.

Q Okay. So for '05 you had accounts rotating in and out in a given month because they may not have held

the model, for example?

A Well, I just think that I couldn't trace any, you know, two accounts that looked alike all the way back to, you know, January, '05, so, you know, I made some -- made some educated guesses on what the membership was. And as you can see in '05, it's -- it's very weak membership compared to '07, right.

We're looking at 80 accounts versus 1,300 accounts, so there was very -- the universe was very, very small in '05, which is why we -- we only had one account in there for the whole year.

Q Is that a function of the fact that the strategy grew quickly?

A I think so, yes.

Q Okay. And less so that you kicked a bunch of accounts out in '05?

A I think it's a function of both, more -- more than that -- I mean, they're just -- I mean, if you look at the SAS program, which to the best of my memory is that final column end of year total firm assets what that number really represented was total SAS assets and because that was the only number I could get my -- my arms around.

Q Uh-huh.

A You know, I couldn't get my arms around the rest of the firm assets, so I supplanted SAS assets there so program that went from 86 million to 787 million over, you know, the course of two years.

Q Okay.

A So that's rapid growth from my -- my perspective.

Q Sure. From 86 million to 787 million in three years?

A Two years. Because those are end of year.

Q Okay.

A It's ridiculous growth.

Q And why do you say it's ridiculous growth?

A Well, it's just -- it's impressive. It's very impressive growth.

Q They have an impressive track record, true?

A I didn't spend a lot of time focused on the track record prior to '05, but from what I have seen since, yes, it looks pretty good.

Q Okay. So beating the market by 27 percent would be an impressive track record?

A I would say I would like to put my money in that.

Q Okay. So -- So just stepping back, I think when we talked in Boston, you know, you said you were highly confident in the accuracy of your composite numbers?

A Yes.

Q Okay. You said you sign the reputation -- your reputation and the reputation of your firm, you would put behind these composite numbers?

A Absolutely.

Q Okay.

A I spent literally hundreds of hours making these numbers, so for anyone to prove these numbers to be inaccurate, they would have to spend hundreds of more hours than I spent to make them wrong.
Q And if they spent those hundreds of hours, you're confident that they might find a basis point here or there?
A Exactly. One -- One or two blips.
Q Okay. If -- If there were a weakness -- or a difference that is someone else might come up, would that likely in the inclusion of accounts analysis?
A Absolutely. I mean, I think -- I think that if two people were to do this, even, you know, at the same experience level that I have, they could make different determinations of inclusion, exclusion for certain accounts, certain time periods. But once the composite got big enough a handful, even five, ten, twenty accounts here or there in or out is not going to change that number.
Q Okay. So a few outliers shouldn't significantly change the average.
A Exactly. Especially when you're talking about 1,300 accounts. You could -- You could take 300 at random out of here and you would still be in, you know, for 2007 for SAS growth 1,300 accounts, take 300 out,

pick any one you want, like a card trick, and you would still be in the 12.4 neighborhood.
Q Okay. But obviously that becomes less the case as you have fewer and fewer accounts?
A Exactly.
Q So 2005 might be more sensitive to the issue of which accounts you selected and kicked out?
A It would be without a doubt. That said, I spent a ton of time on it trying to make sure that the accounts that were included, anybody could back and audit that and say I can see why he did what he did.
Q Okay. So I'm going to -- a question that I kind of need to ask to test what you did. I mean, was there any bias on your part toward kicking out underperforming accounts?
A No, absolutely not.
Q Okay. A minute ago you touched on the fact that to do 2005 and, I guess, to a degree '06, you had to reconstruct the model?
A Yes.
Q And you also had to determine for yourself which accounts fell within which strategy?
A Correct.
Q Okay. Did you make any attempt before you undertook to do those things to ask the company for records?
A I did.
Q Okay. And what were you told?
A They didn't have them.

Q Okay. Who did you ask?
A I went to probably Mark Stys and Ken Johnson and Jason D'Amto all at one time or another.
Q Okay. And what was the reaction when you asked?
A Well, Mark was, like, I'll try to get it for you or have the guys deliver it if -- if they have it, they have it, if they don't, they don't. You know, I think he tried to clear the runway for me, and then I contacted Ken Johnson directly because he was the guy that I had always gone to for this type of information.
And he presumably worked on it and pretty much never got back to me, or if he did it was I don't have it, can't help you.
Q Okay. But the net effect of it was that --
A Some of this stuff preceded him, I guess, as well.
Q Okay. But the net effect was that you generally had to recreate the wheel for 2005?
A Yes. '05 I did completely in the dark.
Q Okay. Is it fair to say that Stanford Capital Management was not able to provide you with any information that would have made you comfortable with their 2005 model numbers?
A That's fair. I mean, if -- just out of curiosity, I would -- I would love to see the composite -- you know, now that composites exist, you can run a report that shows the composite holdings as of each

month. You could also run a composite transaction summary to see when the composite was rebalanced.
And if you really wanted to know how bad their '05 was, you could compare that to Ken Johnson's '05 models so that -- you -- you could do a lot of work on '05. You could -- You could find out a lot of stuff if you did an analysis of '05. If you look at what Ken's models are versus my composites.
Q Okay. Okay. Just real quickly, I'm going to hand you a copy of a document that's been previously marked as Exhibit 4. I will represent to you that it is a Stanford allocation strategies proposal, it says it was prepared for Jane Foster and presented by Tom Wollsey W-o-l-l-s-e-y, it was produced to us by Stanford Group Company or Stanford Capital Management. If you flip to the growth performance page it's entitled historical performance at the top?
A Historical performance?
Q Yeah. Do you see that?
A Okay. Yep.
Q Okay. You see the SAS growth table on the right-hand side?
A Yes.
Q Okay. You see the 2005 number there?
A Yes.
Q Is that -- Is that 8.82?
A Correct.
Q Okay. And the composite return in Exhibit 35, gross of fees is that 8.81?

A Yes.
Q Okay. So does it appear to you that they're substantially using your 2005 number in the Exhibit 4 performance for growth?
A Yeah. I would just wonder why there was any difference at all unless the number -- I will say this: Numbers in Advent never get locked down, so...
Q Might move by a basis point?
A It -- It -- They do. They do.
Q Okay. But if you look at '06, are the numbers -- numbers are identical between your work in Exhibit 35 and Exhibit 4?
A Right.
Q 14.68?
A Right.
Q Okay. And 2007 it's a little off, 12.43 for your product and 12.4 from the growth --
A Right.
Q Okay. But it generally appears that in 2007 and '06 and '05 Exhibit 4 is using your audited numbers?
A Agreed.
Q Okay. I think if you flip to the -- let's find it. Okay. If you flip to the disclosure page at the back of the document?
A Yes.
Q There is a reference to the performance results for SAS income, SAS balanced, goes through the list of strategies. Said it includes accounts managed by SCM

that have been audited and verified Riordan Consulting, L.L.C., from the first quarter of 2006. Do you see that?
A Yes.
Q Okay. And -- And you authorized them do to that, to use your audited work in their marketing materials?
A I don't recall explicitly saying that, but I don't have a problem with it.
Q Okay. It was your understanding that that's how they were going to use it?
A It doesn't surprise me, but I don't remember explicitly giving permission.
Q Okay. You didn't sign a consent letter, like a typical U.S. accounting firm does?
A No, I didn't.
Q Okay. But -- But you understood that they wanted an audited track record?
A Yes.
Q And you knew the reason they wanted it was to present it to clients?
A Absolutely.
Q Okay. The next sentence says previous performance figures have not been audited and SCM does not represent that the -- this information is accurate, current, or complete and it should not be relied upon as such. Do you see that sentence?
A Yes.
Q Okay. So it appears to be relating to any periods pre-2006?

A Okay.
Q Okay. Did you advise Stanford on that disclosure?
A No.
Q Did you advise them at all that they could disclaim away their pre-2005 track record?
A No.
Q Okay. Just being an expert in this field, you know, are you -- is this industry practice to include a track record pre-'06 and then say, you know, we can't tell you if it's accurate, current, or complete or -- and we tell you that it shouldn't be relied upon?
A Well, to be honest most of my experience is with firms that are GIPS complaint or on the path to being GIPS compliant. I'm not as familiar with the rules of engagement for noncompliant firms such as Stanford. I mean, just from a personal opinion perspective, I think it's a pretty weak disclosure.
Q In terms of disclaiming what -- at the back of a document any reliance on the historical track record at the front of the document?
A Well, I just think that, you know -- okay. Previous performance figures have not been audited, but that -- that's really all it says is that they just haven't been checked by anybody independently. It doesn't say any -- give any other details as to how they were calculated, whereas the sentence before it says that performance results are from actual accounts and that's

been checked by someone. This just say previously nothing has been checked.
Q Okay.
A That's what I mean by it appears to be weak.
Q Okay. Can you tell from this disclosure whether or not it's model performance?
A No.
Q Can you tell whether or not it's model performance with the benefit of hindsight?
A No.
Q Can you tell whether or not actual clients may have experienced performance that vastly differed from the performance presented?
A It would not surprise me.
Q Okay. But you can't tell that from the disclosure?
A No.
I'm also curious as to why they didn't include '05, which was checked by me.
Q Good point.
So you're noting that in the disclosure they say that Riordan -- that you audited '06 forward, but there is no mention of 2005?
A I did '05.
Q Okay. And when you look in that table, I think there is a date. I will just tell you where it was. It says as of June, 2008, and so you would have completed your audit for 2005 prior to June of 2008?
A Absolutely. At that point I was done with

anything other than current quarterly work for Stanford.

Q Okay.

A I wrapped up everything for them pretty much by April of '08, and at that point I was just doing current quarter work.

MR. KELTNER: Let's go off the record.

(A brief recess was taken.)

(SEC Exhibit No. 36 was marked for identification.)

BY MR. KELTNER:

Q Okay. While we are on the break you identified a couple of documents that may be relevant to prior discussions we've had. I'm going to go ahead and mark as Exhibit 36 a document that is entitled SAS replacement journal. Can you tell me what Exhibit 36 is?

A Yep. Exhibit 36 is the rebalancing activity that I received from Ken Johnson, which was supposed to tell me what -- which models were rebalanced and when, but it ended up really being was it just told you the month and the year that the rebalancing occurred and the name of the security and -- and lacked really the necessary information to calculate true model performance.

Q Okay. So from Exhibit 36 can you tell which strategies are impacted by any of the rebalances

indicated?

A No, you can't.

Q Okay. And what would you -- what would you have needed in order for Exhibit 36 to be useful?

A Basically, the journal that I created from scratch on my own with the actual activity that I observed when I drilled into the detailed analysis of these models. I was able to determine the actual rebalance date and the percentage of the rebalance and which model it was -- impacted.

Q Okay. Can you put his document in a timeframe for me? I mean, when did you get this document?

A I would say -- well, based upon the date of the last rebal here is April, '07, so I most likely got it sometime after April, '07, or maybe even in April of '07. I had seen a previous version that was very similar that's in my records somewhere that had pre -- you know, only dated through '06 on it.

Q Okay.

A So this is a -- this journal goes from December of '03 through April of '07.

Q Okay. So that single piece of paper was reported to you to be all rebalances during that timeframe?

A Yes.

Q Okay. And --

A The only record that I could get of five years worth of rebalances for six strategies.

Q Okay. And I think when you described this

document off the record I think you said it was laughable?

A It is not something that you could really use in a bona fide investment management shop as, you know, recordkeeping.

Q Okay. Because clearly there was -- there was significantly more activity than is represented in Exhibit 36?

A Exactly.

Q Okay. So using Exhibit 36 there would have been no way to re-correct the model?

A Correct.

Q Okay.

A This ended up being a useless piece of paper to me.

Q Okay. Who gave you Exhibit 36?

A Ken Johnson.

Q Did he explain in any way you to the problems with Exhibit 36?

A You know, the gist I got from Ken, who is a really nice guy, is that we just -- I just don't have the details, and he apologized.

Q Did he blame anybody for that, or did he say, you know, the guys -- it was done before I got here, anything like that?

A No. He just -- He just said this is all I have, and that was typical Ken. This is best I can do. This is all I have. That was the same old story I would

get regularly.

Q Okay. So he represented -- Ken Johnson represented that you Exhibit 36 was the only record he had of the rebalancing the transactions within the SAS model?

A Yeah. That's correct. Up -- Up though point of April of '07. I do recall that we did have a subsequent meeting once I had 2006 buttoned up and maybe even the first quarter of '07 with what a real transaction journal should look like, and I handed that over to them and I said, okay. You know, try to maintain this on a go forward and it would be useful for the performance group if you do. And so my understanding is that they do that now.

Q Okay. And would you need to do that -- a separate one for each strategy?

A Yes.

Q Okay. So you certainly wouldn't have rolled them all into one piece of paper?

A Right.

Q Okay. Aside from your work to construct a journal, are you aware was there any of attempt by Stanford Capital Management or its employees to do that work before you became involved?

A No. I think -- I think I was the one that called attention to it.

Q Okay. So we have heard rumors of a project to reconstruct the transactions, reconstruct the rebalancing. As far as you know, that didn't happen until you got involved in mid -- sometime in 2007?

A Well, as soon as I started trying to calculate model performance I knew that I needed the actual dates and amounts of the rebalances or else I was going to produce equally inaccurate numbers. So I started asking for this type of information very early on in the game.

Q Okay.

A I was not actually able to reconstruct my version of the rebalancing record until I had composites built, then I used the composites so the account level actual real world transactions to back my way into a model, quote, unquote, model trade journal.

Q Okay.

A So I used a real world activity to create model rebalances.

Q Okay. Is that somewhat backwards?

A Well, it's all -- that's all I could do, and is probably more accurate than any records they didn't keep.

Q Right. So until you had prepared your composites, there was no way for you to prepare an accurate model?

A Well, to the utmost of accuracy, yes. I would -- I probably did some especially in '06, which is all we had. I probably used another method to figure out rebals, which would -- would be very similar to what I did after composites were constructed. And that is just run transaction journals for accounts that I knew were in a strategy, and then I picked up the rebals off of those

accounts. So I probably did '06 off of a subset too. Again, backed my way into rebals.

(SEC Exhibit No. 37 was marked for identification.)

BY MR. KELTNER:

Q One other document you identified when we were off the record, I'm handing you a document marked as Exhibit 37 it says Zephyr Style Adviser top periodic returns. It has a list of growth strategies down the left-hand side and then dates across the top. And it appears to layout performance numbers for 2002 through 2006.

Can you identify Exhibit 37?

A Sure. Exhibit 37 is the traditional six SAS strategies, the mutual fund strategies and their returns monthly and quarterly and annually for the periods of 2002 through 2006. And it appears that the report was concrete by Zephyr Style Adviser.

Q Okay. And when say returns, you mean model returns?

A Yes. Although, at some point there is no saying that they couldn't have switched over and put in composite returns, because Zephyr just takes whatever return you tell it to. It's not a return calculator. What Zephyr does is it takes return data and then provides other types of analysis such as risk returns and that type of thing. So you can -- you can feed it any return stream you want.

Q Right. But when did you get Exhibit 37?

A Well, I thought I got it -- I thought I got it almost immediately when I arrived on the scene at the end of '06, and this is only through '06, so that's probably accurate. Probably early '07 I would guess.

Q Okay. And what was Exhibit 37 represented to you -- what were you told it represented?

A I would imagine, and I'm -- I'm -- it's I'm a little fuzzy on the details, but I'm guessing it was given to me as -- you know, again from Ken Johnson saying that we don't have a lot of details as to how we calculated the returns or -- or the basis for these historical returns. But this document, Exhibit 37, at least tells you what we know them to be.

Q Okay.

A So here is something for you to start with.

Q Okay. Is it fair to say that exhibit --- you were given Exhibit 37 and essentially told it represented the track record for the SAS program?

A Yes.

Q Okay. And -- And specifically the model numbers prepared by the investment advisory group?

A Most likely, yes. Well, I mean, there were -- they were the only people responsible at the time for -- for producing these numbers is the IAG group.

Q Okay. And just to put it in context in this early January -- early 2007 timeframe, who would that be?

A Ken Johnson.

Q And he reported to?

A Jason and -- Ken and Jason D'Amto.

Q I understand that you also received attribution reports from Ken Johnson?

A Yes.

Q Okay. Briefly tell me what those attribution reports are.

A They were called -- I believe, I'm not a hundred percent sure, but I believe that the monthly attribution reports were created by Ken Johnson. He -- They're misnamed because they're really contribution reports and what it is a month end snapshot of the strategy level holdings, the weights of each holding within the strategy, the return of each name within the strategy for that month, and then a weighted average return of the strategy giving a total of return for the strategy.

So each -- it's called a contribution to return because each member of the strategy contributes to total return based upon its weight and its return. If that is all that was being done to calculate the strategy return, it's inherently flawed because it's a month-end snapshot and it wouldn't necessarily hold true for the entire month, only in the months where they had no rebalance activity, which did -- I did see that to happen from time to time where the model stayed true for the whole month.

But if there was one rebal in the period then, you know -- the return is going to be flawed.

Q Okay. I'm just trying to put some of your prior testimony in context. For example, could you skew those monthly attribution reports by putting a well -- a fund that preformed very well into the account at the end of the month?

A Absolutely.

Q Okay. And it would be an easy way to skew the results to the high side?

A Easy.

Q Did you see any evidence of that actually happening?

A I didn't. I didn't, but then again, you know, in my defense, it was a jigsaw puzzle trying to put all the pieces together as to -- and -- and things became more clear to me as I -- as I went over time. And, you know, like I said earlier, my -- in my testimony is I got to the point where I wasn't getting good, reliable information out of that group, so I stopped going to them for information and I started creating it or going to other sources to get information.

So, you know, maybe I took the easy way out and -- and didn't analyze their -- or scrutinize what they were giving me more, you know, with the thinking maybe there was some intent there. But what I did was if I got bad information, I just went in another direction.

Q Okay. Okay. I just want to talk to you a

little bit about the bank on few issues. We talked earlier today about your attempts to get information related to the CD program from the bank.

A Right.

Q Okay. And it's fair to say you were stonewalled?

A It's fair to say that I was not granted access. I did ask for a user I.D. and password so I could dig in, and I never got that. So did -- So did my associate, Rob Baker. I never, you know, saw any data from the bank. I'm trying to think if Rob Baker did though or not.

It was -- It was a black box. I would -- I would describe my experience with the bank as a black box to me.

Q Okay. I think from, you know, recent media portrayals I know what you mean. But what do you mean by a "black box"?

A Meaning that, you know, I wasn't going to get any visibility to it and that -- it was -- it was described to me the -- the bank CD, I had discussions with some people at the bank, but I still never really understood any more probably than you do about it.

It was -- It was like I might as well have never even tried to learn anything, because I still know nothing.

Q Okay. When you ran into the brick wall and couldn't get information, did you go to Stys and talk to him about it?

A I did. I did. We would talk about it, and he

would blame it on the president, and --

Q President of the bank?

A President of the bank, Juan I think is his name.

Q Juan Rodriguez Tilentino, does that ring a bell?

A Yes, that's the gentleman's name. He would blame it on him and -- and Mark's typical protocol to me was he would try to get Zack Parrish to knock that wall down and -- and, you know, work on something else.

Q Okay. And then nothing ever came of those efforts?

A Well, I think Rob Baker eventually got some success with integrating the bank into the Odessy platform, you know, towards the end of my reign there. And he would be able to, I think, give a better description of where things went when sort of we gave up on Advent integration, and he started to get some transaction with Odessy integration.

Which was, you know, marching orders from Mr. Stanford to, you know, have this Odessy platform be, you know, state of the art, best platform in the world, you know, and -- and be able to report on all assets any time, any where.

So, you know, I think -- I think Rob and the people that worked on Odessy had a lot of more, you know, clout and also success in getting data out of the bank.

Q Okay. When you say data from the bank, were asking for anything, you know, secret, anything regarding the investments of the bank, anything like that?

A Oh, I will give you an example of what I was looking for. I'm trying integrate data valuations transaction, such -- most importantly cash flow, deposits and withdrawals, trying to integrate that into an Advent system. Advent has a certain way they need the data to be to successfully upload or integrate.

So all I wanted to see was what a file looked like, a transaction file, and a -- you know, a month end valuation file, holdings appraisal, whatever you want to call it. So that my guys at Advent could look at that and -- and give me an estimate of what it would take to translate the data from one system to the next and make it compatible with Advent.

So you could take the account number off, you could take the account name off. I was just looking for data. I wasn't trying to get any client's sensitive information.

Q Yeah.

A But I think that was always the wall. That was part of the wall was this is very sensitive. We have contracts with our clients. We can't disclose any of this information or -- or we jeopardize the confidentiality of our customers. That was pretty much the protocol wall that I got.

Q I know we had some conversations in Boston just briefly as we were wrapping up about suspicions that you and Mr. Stys may have talked about regarding the bank.

A Well, I mean, we joked about it. I mean, post-Madoff we joked that maybe the CD was -- was a Ponzi scheme because, you know, the solid returns, the fact -- some other factors where I think Stanford has control over a lot of the different elements around the reporting of it, and so on, you know, in a similar fashion.

So, you know, I would call it playful bantering between himself and I. Not really a -- we never really sat down and sharpened our pencils and tried to do a Mark Perry/Marcopolos type of investigation.

Q Right.

A We -- we joked about it, but -- and -- and we joked about it because it was like, you know, he's no longer there any more, I'm sort of barely there I guess, and, you know, it's amazing -- it was just kind of amazing to us to work some place so long and -- and not know.

Q And not know what?

A Not know anything. Just not even know what this thing was and how it worked and, you know, how to report on it and how to calculate returns and just do what I do.

Q Okay. So for all your time and all Mr. Stys' time, the bank essentially remained a black box?

A Mystery.

Q Okay. So -- And the things that you joked about, were they the guaranteed high returns?

A Yeah.

Q Okay.

A Yeah.

Q Was it the consistency of the high returns?

A You know, I've never seen a single return. Everything I know from bank CD returns has been through hearsay.

Q Okay. Speaking of joking, you and I joked about a little bit over the break earlier today about how if the SEC had more, you know, people like yourself, more analytical, numbers based folks things like Madoff may not have gone undetected?

A Right.

Q So in that context, you know, what types of things would you have been looking for as red flags for Madoff?

A Well, I would be looking for, you know, custody statements with actual value valuations and actual transactions. A good performance person can, you know, look at a return and, you know, start a process of analysis, that's why you call it a performance analyst. Those are the people that are in my business, that's -- that's what they're good at, so you can dissect a portfolio, and as long as you can cross-reference evaluations, you know, it is impossible to come up with a -- with a return that isn't justifiable.

So if I was seeing Madoff-type returns and was given access to the underlying data, I would be able to disprove that return and, you know, within an hour.

Q Okay.

A Give or take.

Q If you were saying Madoff-like returns but you weren't allowed to see any of the underlying data, would you have advised the client to invest?

A No, I would not.

Q Okay. Why not?

A Well, before I personally put my money into anything, and as a CFA, you know, I'm all about ethics and fair representation and full disclosure. I mean, the spirit of everything I stand for with my professional credentials as CFA and CIPM I sign an oath every year, and so if you can't do that or are unwilling, then that's a red flag and go somewhere else.

Q Okay.

A That said, I'm also not well versed in the -- in the rules of engagement of these, you know, Cayman type banks and Swiss banks because I unfortunately don't have enough money to hide any over there. But, you know, that was part of the mystic for me is that I just don't know what the rules and regs are with those types of banks, so, you know, with a general working assumption that people aren't breaking laws and that people are doing the right thing, I assume that most of the stonewalling was in part due to those types of, you know, rules and regs of -- of a Cayman type bank.

Q But again, would you put your money with a Cayman type bank like that where there is no transparency

and, you know, 15 years of market beating returns?

A Well, I mean, no. Personally, no.

Q Okay. And you wouldn't be comfortable because of lack of transparency?

A Exactly.

Q Okay. Just real briefly since you said you hadn't seen bank return, I thought I would show you some. If you look at Exhibit 8, I will represent to you that we have been told that that is the track record of the bank, their investment portfolio?

A This is the investment portfolio not the -- not the actual investor guarantee, right?

Q Right. That's not the CD return rate, that is the returns of the bank. Those are the returns of the banks.

A Okay.

Q And I will represent to you that the numbers stay fairly consistent from '05 forward. The returns on the portfolio are in the 12, 13, 14 percent range.

A Okay.

Q Okay. So you've got a track record there from, what, '94, is that the first year on the page?

A Yes. 1994.

Q Okay. All the way through the present day in no year did they fail to hit their target rate around 12 percent. So would you characterize those returns as consistent?

A They're definitely consistent, consistent double digit return.

Q Okay. Given your experience in the industry, are you aware of any assets class that has performed that well since 1994 on a consistent year in and year out basis?
A I am not aware of any.
Q Okay. If you saw that type of track record from another client, would it raise any concerns?
A I would -- I would definitely be, you know, at least have an intellectual curiosity to -- to see some evidence of -- of -- supporting evidence of a stellar track record such as that.
Q Okay. Have you read, you know, the press accounts on Madoff?
A Have I read press accounts on Madoff?
Q Uh-huh.
A No. The only thing I know about Madoff is what I see on CNBC every day. I watch CNBC every day.
Q Okay.
A Just about.
Q What can you tell me that's, you know, different between Madoff's track record and the track record portrayed in Exhibit 8?
A I can't say, because I've -- I've never seen the Madoff track record.
Q Okay. Are these types of consistent year in

and year out returns typical?
A Well, I don't -- I would be able to, I think, give a better assessment if I knew what the underlying assets were. I mean, this, again, this is another reason for a black -- why it's called, quote, unquote, a black box is I have heard about the double digit returns. I have heard about the consistent returns, but I have never heard of a single investment in this portfolio.
So I have no idea what type of assets they're buying, how it's being managed. I know nothing about what's generating those returns.
Q Okay. And is it fair to say that no single asset class consistently over those years could have -- could have obtained numbers like that?
A I would say that's probably an accurate statement.
Q Okay. Is it likely that you would have had to -- for a lack of a better term -- been in the right place at the right time numerous times in order to maintain this track record?
A Pretty much, yeah. I mean, it's -- it's -- it would -- it says genius to me. I think I've used that term in previous conversations. It's a track record of a -- a calculation of geniuses.
Q I mean, do you see that kind of track record

even from the best hedge funds in terms of year in and year out? You may see that on an average basis, but don't they typically go up and down?
A Yeah. I mean, I've never seen such a

consistent track record. I will say that. I mean, gosh, we've got from '97 through '01 -- actually, '02, 14 percent and change every single year. So one, two, three, four, five, six years straight of 14 percent. That's -- That is -- That strikes me as not possible. Almost statistically impossible.
Q That's what -- That was going to be my next question. What is the statistical likelihood based on your expertise?
A I mean, I have no idea. I have no idea what's going into these numbers, but someone actually achieving that and that's not hindsight -- hindsight produced, the odds seem -- seem like they would be minimal.
Q Okay. Minimal you mean less than 5 percent?
A Yeah. I mean, six years -- and I'm putting this in my notes -- six years in a row from '97 through '02 of give or take a hundred bips 14 percent straight up. And '99 and 2000 and '01 were horrible years for most of the world.
Q Yeah. I mean, that's -- a large piece of that is the tech bubble, right?

A Yeah. Exactly. I know I lost about 90 percent of my portfolio in -- in 2000.
Q Okay. And more recently they have claimed precisely the same types of returns through '07. I guess another question. 2008 they claimed to have lost roughly one percent. Based on what you have seen from other clients and the market generally, is that also highly

unlikely?
A In 2008 -- well, you know, I have seen some good hedge fund performance, but most of my clients and people I'm talking to are -- are down, you know, around 30 percent for the year.
Q Okay. I think the market returns as I understand were about that 30, 40 percent?
A Yeah. I mean, anyone that's long only and -- and in equities and even in balance, you know, with fixed income are still down double digits for '08.
Q I would like to highlight one more thing on Exhibit 8. If you look at the returns from 1995 and 1996 comparing those two years together, does anything stand out?
A It's exactly the same return.
Q How difficult is it -- How difficult is it to manage a 6, $700 million portfolio or portfolio of any size to precisely the same return to the hundredth

decibel point?
A Well, it doesn't matter the size of the portfolio. I could give you a thousand bucks, and you couldn't do it.
Q In back to back years?
A Yeah. I mean, it's just statistic -- the odds of -- I mean, I have seen it happen. I've -- I've look at numbers every working day of my life for the last 16 years, so I have seen it happen. It happens. It's a coincidence more than a management still.
Q Okay.

A That's just odd. I mean, it almost looks like a typo.

Q More like perhaps they --

A I mean, this -- this is -- I mean, this is a PowerPoint so these numbers are typed in. So someone could have typed it in wrong. I've -- It's just a reality of what happens.

Q Right.

A You have these numbers presumably generated on a bona fide system somewhere with all the relevant details that back up the return, and then you put it into a PowerPoint and some, you know, marketing little hottie, you know, types it in for you.

Q Okay.

A So that's possible.

Q If they were -- If those same identical returns showed up in 20 different documents and various different formats, would you still think that's a likely explanation?

A Well, someone should have caught it. Yeah. I mean, someone should have picked on it I think.

Q Okay. If, for example, we were told that the justification for that is that the firm has a practice of targeted returns or -- I forget what the correct --

A Goal --

Q Yeah. Goal based.

A Goals based. Yeah. Ben Finklestein's theory. Yeah, he and I went around and around on that.

Q Well, absolute return was the word I was looking for.

A Okay.

Q But, you know, a philosophy of target returns essentially.

A Yep.

Q We have been given the explanation that perhaps the target each year was 15.71 percent, or whatever the number there is, and at some point in the middle of the year they hit that target so they just shut off their investments. How difficult would it be to shut off a portfolio, you know, in the third quarter and then maintain a precise return number through year end?

A Well, I mean, if you knew -- if you were going to put it in a money market until, you know, all the recent troubles with money markets and the markets in general, you could target a return pretty -- pretty solidly, I think.

Q But you would have to factor in whatever your return would be for the remainder of the year, so --

A Well, I'm seeing you would have to -- put it this way, my understanding of this whole goal based return was, you know, holding fixed income securities to maturity under the assumption that no one would ever default. That was my understanding of this goals based strategy, so if everything gets held to maturity and nobody defaults, you can project your -- you return, because it's the coupon on the bond.

Q Right. Assuming you're in a hundred percent

bonds?

A Exactly.

Q Okay. But if you have a diversified portfolio of equity, commodities --

A Well, throw one equity and throw one commodity in there and that's all bets are off. Have one bond default, and everything changes.

Q Okay. So diversified portfolio across multiple asset classes it would be very difficult to target a return to the hundredth decimal point?

A Yeah. I mean, I can't believe that someone is telling you that that's what they were trying to do.

Q Okay. So what I'm get at is that -- is that a that total implausible explanation?

A Yes.

Q Okay.

A I mean, I did get my CFA back in 2000, and I did study hundreds of hours on investments and I missed that part of the test.

Q Okay. Just a few other things. When I was going back through my notes about your discussions with Rob Baker, you told me that generally you had similar discussions with Rob Baker joking about it being a Ponzi scheme, the bank?

A Yes.

Q Was it you or Mr. Baker who said Madoff made me think of the bank CD?

A I think it was me. I said that. Forget it.

Q What were you going to say?

A I was going to ask you if my answers were syncing up with our last meeting for the most part.

Q We did talk several times today about -- or at least on the context of the March, 2007 meeting about being careful about things getting to the SEC or careful about putting things in e-mail?

A Yes.

Q I think when we talked last time may be not in that context, but you told me that at some point you were told to be cautious about what you put in e-mail.

A Yes.

Q Okay. And who told you that?

A That came from at least Mark Stys and possibly Zack as well.

Q Okay. What -- what -- What did you take that mean? What types of things should you be careful about?

A Well, if -- if I was -- you know, if I was calling anyone out on -- on not doing a good job, for example, or speculating that there was funny busy business going on with the numbers, you know, the gist I got from Mark is that people at Stanford, you know, are -- are reading e-mails, or the powers that be at Stanford are reading e-mails.

So my take on not putting anything in e-mail wasn't for, you know, the SEC, that was never named specifically or any other external organization. But it was more to keep things close to the vest internal.

Q No general statements about we need to be careful from a litigation perspective, you know, we don't want evidence of our track record being inflated, floating around, anything like that?
A No, that was never said. My -- My -- The best of my recollection is, you know, some words of wisdom and/or advice from Mark, which was be careful what you put in e-mail, people read your e-mails here.
Q Okay.
A Because I was on the Stanford e-mail.
Q Okay. Was any of that in the context of performance reporting issues?
A No. Well, I mean, other than if I was calling somebody out for being a dimwit or, you know, not knowing anything about performance or -- I mean, that was the gist of it. I mean, to be perfectly honest maybe naively so in hindsight, but, you know, I'm a new -- this is a new business for me, I'm thrilled that I get to do something I'm good at and make a lot more money than I was making before.
And, you know, I naively just assumed that -- that these guys were boneheads and that these were honest mistakes, and it was because of the lack of knowledge and experience. And, you know, I guess I was stereotyping Texans, you know, being a Boston guy.

Q Being simpleminded?
A Chalked it up to -- to the part of country that we were in. So, you know, and like I said, maybe naively so, but that's -- I didn't really ever think of any -- any maliciousness. It wasn't until the day my phone rang from the SEC, I had never thought of any malicious activity.
Q Except that earlier today you testified that you told Mr. Stys that you thought the numbers were fishy.
A Well, I did. I did. But I didn't think it was blatantly intentional, I guess.
Q Okay. You thought it was fishy that the numbers were on the high side, but you saw it -- you didn't have clear evidence that it was intentionally fraudulent?
A Exactly. That's -- That's better said than I said it.
Q Okay. So suspicious, but you didn't know that it was intentionally fraudulent?
A Right. And if you meet the guys and my -- my personal impression of the guys, and I feel like I'm contradicting myself now, but they seem pretty simple -- simple guys, so I thought they were being straight. I thought they were playing it straight with me.
And -- And to be honest, I'm really curious to see how this all works out. And, you know, if I was given the chance to go back in and -- and do some analysis on these -- these historical numbers, I would

really like to -- I would love the chance to do it.
Q What? A chance to look at pre-'06?
A Yeah. Yeah. And do a -- I never did a compare of '05 composite versus model, because I didn't bother calculating models in '05, because I didn't have any of the data. It didn't make any sense to me, so I just didn't composites for '05. But if I could try to reconstruct what Ken did from models in '05, that would be very interesting.
Q To try to figure out how he got to his numbers?
A Exactly.
Q Did you at some point compare just at a high level, you know, your growth number was 881, his growth number was 1,081 or 1,083?
A No. You know, interestingly enough when I delivered the three-year track record at the same time I got a heads up from Stanford that, you know, they were going to really be cutting me back, and they sort of asked me nicely. I was under contract through June 30th of '08.
Q Okay.
A And they sort of just said, you know, take it down a notch, you know, go from 40 hours to significantly less, or -- so I looked at as really an opportunity to just take some time off, and I did. And, you know -- so by the time I had '05 numbers I was on the way out the, and I certainly wasn't curious enough to do it for free.
Q Right.

A Although, now I'm getting there.
Q Your curiosity has been raised?
A It's -- It's getting there -- to the point where I would do it for free.
Q For example, would you be curious to see how they generated 16 percent in '04, you know, when they were showing an index of one percent or '05 1,083 an index of three? That kind of thing?
A Well, I think the bottom line is -- is any significant out-performance of -- of the markets when you're buying mutual funds that are tracking the markets would be a red flag, and I would want to dig in.
Q Okay. And so I think we talked about this when we were in Boston. You know, and in the early years '99, 2000, 2001 they were showing numbers that outperformed the market, you know they would quote 18 and the market would be down 9, or they would quote they lost 3 when the market lost, you know, 20 or 30. Those types of numbers would be significant red flags?
A Yeah. I mean, you know, and -- if you're in mutual funds it's really hard to outperform, I think, by -- by that much unless you're always in the best funds.
Q Just because mutual fund are so broadly diversified?
A Well, depends up on the fund --
Q Sure.
A -- but, I mean, they are by definition help you to diversify with one -- one asset. Right?

Q Right.
A You can buy one mutual fund and hold 500 companies. I mean, have -- have you interviewed the guy that was responsible for these returns, and has he been able to justify the -- how it was done? I don't know who was managing these portfolios in, you know, the early '99, 2000, '01, 02.
Q Right. Yeah. I can't really comment on that.
A That would be an interesting conversation.
Q Just, for example, I think we talked earlier today '99, 2000, 2001 were really bad years for the market, correct?
A Right.
Q Okay. So, for example, 2000 the growth stated return is 18 percent and the S&P was down 9.11. 2001 the growth stated return was 4.32 and the market was done roughly 12 percent. 2002 the stated return was a loss of 3.33 and the market down 22 percent.
So again, for a mutual fund product, those types of returns would be a huge red flag?
A Yes, I would say so.
Q Is it fair to say those numbers would be hard to generate without the benefit of hindsight?
A You know, I try not to play in the land of make believe, so I wouldn't even know.
Q Okay. But is it unlikely to generate those types of numbers in a single year let alone three consecutive years?

A I'd say it's -- it is unlikely, yes. But I'm sure if you did your homework you could find evidence of it somebody is probably legitimately done it, or maybe multiple people. I don't know, but I would say it would be rare.
Q Okay. But certainly that type of out-performance is the type of thing that anybody in the industry would recognize as being a red flag?
A Well, it depends upon how you're looking at it. If you're -- If you're looking at it as, you know, do you want to put your money in here and should I do a little more due diligence red flag. Absolutely.
Q Okay. If you're coming in day one as the compliance -- as the disclosure -- or the performance expert, and that's the track record that they present to you, is your radar going to be up a little bit?
A Well, you know, no. Now I feel like I didn't do my job. It's hard to believe how focused I was on the task at hand. Not to, you know, have taken a step back and questioned those numbers. With the benefit of hindsight, yeah, I should have taken a better, harder, closer look at -- at those numbers. You know, it just wasn't in my -- it wasn't one of my duties that I was charged with.
Q Okay.
A And to be honest with you, Tom, I really felt, you know, this was a new -- being a consultant was new to me.
Q Sure.

A I really felt like I every hour, every minute that I was on the clock and I was charging by the hour that I should be doing exactly what they wanted me to do. I think if I was, you know, a full-time employee, I think I would have had a different pair of glasses on.
Q So generally speaking you didn't look at pre-2005 because they didn't ask you to?
A Yes.
Q Okay. With the benefit of hindsight, you know, did you wish you had, you know, looked at the materials and seen what they were presenting pre-'05?
A Absolutely. You know, I mean, especially just, you know, for the benefit of -- of friends and colleagues that -- that, you know, I worked with that, you know, I could have helped with -- with my expertise. And that's -- that's the way I always looked at myself to these guys as an -- as an assistant, a helper, an asset that could help them get to a better place, because my working assumption was, hey, they have got something pretty good going on here, let's get the story out. And let's just make sure that it's an accurate story.
So, yeah, in hindsight I wish that I had spent time on the historical numbers and done whatever I could to help them, you know, get to an accurate number.
Q Okay. Real quickly. I have been reading from Exhibit 4, if you can pull it out again, and just flip to that page entitled Historical Performance.
A Okay.

Q Okay. You see the title at the time top, Historical Performance?
A Yes.
Q And on the right-hand side you've got the charts with SAS growth. Looking at this chart, does this appear to be the historical track record of the SAS growth program, is that what it's --
A The table or the chart?
Q I think they're both the same thing just in different formats, but --
A Okay. Looking at the table -- well, again, you know, I don't -- I don't memorize the numbers.
Q Yes. But is this -- does it -- does it appear to you that that's what they're representing this to be the historical track record of the SAS growth program?
A Yeah. Yeah, because there is nothing on here that says otherwise.
Q Okay. And if an investor were to look at this, it would be reasonable for that investor to assume this was the actual track record of the SAS growth program?
A I think this would be a reasonable assumption, yes.
Q Okay. And if, in fact, the '04 numbers back in time were generated with the benefit of hindsight, would it be misleading to call that performance historical? In other words, if it's a model calculated January 1, '05, and then prior year returns are -- are calculated with the benefit of hindsight?
A Yeah. I mean, in -- from my experience if

you're mixing model with actual or composite, you -- you -- it should be -- you should say so on this page, but that's -- I don't know that's my opinion.

Q Right.

A And my experience. You know, with that said, who -- I don't know many people that even read the fine print. You know, I get credit card -- we have changed your credit card agreement, and I don't even read it. But that to me -- you really -- it's -- it's not a -- it's not in the spirit of the business that we're in.

Q Okay. So you would want to accurately disclose to the investor that if a portion of this is model performance with hindsight, you would want to make that clear?

A Absolutely.

Q Okay. And so you wouldn't call it historical performance?

A Well, I mean, I think that's semantics.

Q How would you --

A How they -- How they -- How they chose to title the page I don't think is as misleading as just seeing a stream of numbers side by side by side that are apples and oranges.

Q Okay.

A That part I think is misleading. I don't

think -- I think what -- what they call the page is whatever you want to call it.

Q Okay. If they -- so in your mind, setting your audited track record side by side with numbers generated with the benefit of hindsight, that in no way represent actual client performance, that's misleading?

A Exactly.

Q Okay.

A Yeah. I mean, call the page whatever you want to call the page. I mean, it's historical performance of something. The question is what.

Q If --

A That's what is not clear. It's historical performance, because it's performance and it's history. But is it a model? A model of hindsight or a composite.

Q If it's a model with hindsight, how is it historical?

A Well, it's just, you know, what the model would have done at that particular point in time.

Q Right.

A I think it's just semantics thing. That's my opinion.

Q Okay. Okay.

MR. KELTNER: Let's take two minutes. And we will go off the record.

(A brief recess was taken.)

MR. KELTNER: Go ahead and go back on the record for a few more minutes. It's 4:01.

BY MR. KELTNER:

Q You know, one of the typical questions I would ask you as we're wrapping is, is there anything else that you would like to tell us or anything that we failed to ask. One thing you mentioned that you had -- had -- had remembered during the break was something about a conversation that you and Mr. Stys had regarding the pre-2005 performance numbers?

A Correct.

Q Okay. Just generally what were the nature of your conversations and what happened?

A Well, the nature of it was this is, is -- is Mark would ask me, you know, Steve, I want a longer track record, you know, You know, may have even mentioned something along the lines of, you know, these guys have been shooting the lights out, you know, how can I get you to validate, verify, you know, previous years, you know. And at this point I think we had only maybe had '06 under our belts.

And I said, well, I need -- you know, I need the data. And so we tried the -- the route of the investment advisory group to at least get model level, because that's the easiest. I mean, rather than try to dig through hundreds or maybe even thousands of account level data, the easiest way to reconstruct performance sort of validate it would be the least to get a look at the model, and -- and do it -- if they were able to provide me with model records, I could at least be able to say, yeah, based upon these holdings and these weights

and these time periods, these returns are, you know -- are good, bad, incorrect, or otherwise.

Just like I did for '06. But the -- the message I got from IAG is we have -- we have nothing. I mean, if -- if that transaction journal of Exhibit 36 is any indication of their recordkeeping, I believed them.

And so then the other path, which would have been more arduous and more -- more consulting dollars and hours, would have been the account level data and from what I was told is that, you know, the account -- there was account data on this system or that system or a hodgepodge of different systems and/or it's on Bear Stearns and, you know, we just converted off Bear Stearns and it wasn't, you know, a happy parting.

And, you know, it's going to be -- you know -- excuse me -- an extraordinary challenge to get account level data, you know, for those pre-Advent years or, you know, pre-'05.

So, you know, I'm glad that I remembered that. It was -- It was one or two at most very quick conversations. Mark wanted a longer track record that was stamped by Riordan Consulting. No one could produce any data, any supporting data of any kind, any way, shape, or form.

Q Okay. And when you say no one, the people who you talked to from IAG to request this information were?

A Were Ken Johnson and Jason D'Amto. The same two guys I went to for everything.

Q Okay.

A I never went to anyone else other than Ken and Jason for -- for data.

Q Okay. Can you ballpark for me when those conversations took place?

A You know, I would say, you know, I think after -- after Mark was sort of starting to gain confidence in me and, you know, confidence in -- in my ability to -- to calculate the stuff the, quote, unquote, right way, you know, however it was done in the past. I think the thought started to, you know, occur to him, so -- I have no idea.

I mean, I would say some point -- excuse me -- mid '07, you know, and that makes sense, too, because I think at that point I talked him into settling for the three-year track record '07, '06, and '05, because we had the data.

And he said, well, I can't give you a ten year or a five year, but I can give you a three year. And I have all the data, so that's the path we went down.

Q Okay. So there was -- Stys wanted a longer track record, you went and spoke with the IAG team, D'Amto and Johnson, and essentially were told the data is not there for you to create the track record pre-2005?

A Exactly.

Q Okay.

A So again, in my defense, I feel like I need to say this. It didn't really do me any good to analyze those numbers. I mean, I wasn't hired as a, you know,

legal counsel or otherwise to protect them from putting bad numbers in their marketing materials. I pretty much had a nice distance between myself and anything in the marketing materials.

And if -- if I can't perform any analysis on the numbers, they were just a number to me.

Q Okay. Okay. Anything else along those lines? Anything else you would like to say today before we go off the record?

A No. I mean, if -- if there's any work that needs to be done historical from the SEC's perspective or Stanford's perspective, I would be happy to do it.

Q Okay. You mean in terms of analyzing pre-2005 type data?

A Exactly, yeah. Yeah. I mean, that where I think I could add some value having done it. I think, you know, no matter what the outcome of this investigation, I think if anyone kicks the tires on my work, I still, you know, hold 100 percent confidence in the numbers I put out.

Q Okay. Well, we appreciate your time today. We appreciate you flying in from Boston. If anything else comes to mind, let us know.

I guess, a final question I usually ask, you know, is there anything you want to correct or clarify from earlier today?

A You know, I think I got a little wishy-washy on my thoughts of the -- the numbers in '06 and Q4 '05 when I first came on the scene as -- as being fishy. You

know, just to clarify, a performance person's sort of -- a good and career minded type performance person, like myself, you instinctually think that an investor manager is overstating.

That's just -- You come into the game where that if they're -- they give themselves the benefit of the doubt wherever there is a doubt. I think that is a just human nature, and the human nature of the performance guy, a good one anyway, is -- is all about accuracy and no subjectivity at all. It's just objectively, you know, the number is what it should be based upon these facts.

And so you try make it into a science. So any ways, I just to clarify, you know, I never really thought anyone was maliciously misstating numbers. My -- My thoughts and my words to Mark were, you know, it is a bit odd that it's always in their favor, and I think that was the extent that I -- you know, pointed my finger at anyone.

Q Okay. And I assume part of that was the function of the fact this was your first major client, your only source of income, you didn't want to raise a stink?

A Exactly.

Q Okay. That's fair enough. Anything else?

A That's it.

MR. KELTNER: Okay. Again, we appreciate it.

We don't have any further questions at this time, we might down the road even informally just about documents you've produced. You know, we might talk to you about analysis of particular issues if -- if we need to do that, we'll -- we'll reach out to you. We obviously have your contact information.

Likewise if, you know, there is anything that comes to mind that you want to talk to us about, feel free to give me a call.

Again, the final opportunity anything else you want to discuss?

THE WITNESS: I can't think of anything else.

MR. KELTNER: Okay. Again, thank you for coming in and taking the time to fly in Boston and we thank you.

And we are now off the record.

(Whereupon, at 4:10 p.m., the examination was adjourned.)

* * * * *

PROOFREADER'S CERTIFICATE

In the Matter of: STANFORD GROUP COMPANY
Witness: Steve Riordan
File Number: FW-02973-A
Date: Wednesday, February 11, 2009
Location: Fort Worth, Texas

This is to certify that I, Donna Raya, (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

____________________ ____________________

(Proofreader's Name) (Date)

U.S. SECURITIES AND EXCHANGE COMMISSION

REPORTER'S CERTIFICATE

I, Carolyn H. Gayaldo, reporter, hereby certify that the foregoing transcript consisting of 216 pages is a complete, true, and accurate transcript of the testimony indicated, held on February 11, 2008, at the SEC office, 801 Cherry Street, Fort Worth, Texas, in the matter of Stanford Group Company.

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

Date: ____________________

____

Official Reporter
Diversified Reporting Services

GOVERNMENT EXHIBIT
CARDELS 800-783-0399
1/30/08

STANFORD GROUP COMPANY

INVESTMENT PROPOSAL

(Client Name)

(Date)

prepared by
(Advisor Name)

(Office Address1)
(Office Address2)
(Office Address3)

phone (555.555.5555)
facsimile (666.666.6666)
email (advisor@stanfordgroup.com)

(Web address)

INTRODUCTION

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

THE STANFORD FAMILY HERITAGE

Lodis B. Stanford founded the Stanford Insurance Company in Mexia, Texas in 1932 during the Great Depression, the most difficult U.S. economic era. Later joined by his son, James A. Stanford, together they added real estate to the family business ventures. Today, Lodis'grandson, R. Allen Stanford, oversees the Stanford Financial Group of companies, a global network of financial affiliates.

Lodis Stanford established his business with a philosophy of providing the highest level of service possible to his clients. Though times and tools have changed, the fundamentals that built our strength are practiced every day. The Stanford heritage of hard work, clear vision and valuable service to clients continues to be the guiding force behind today's Stanford companies.

STANFORD FINANCIAL GROUP OF COMPANIES

United States
- >> Atlanta
- >> Austin
- >> Baton Rouge
- >> Boca Raton
- >> Boston
- >> Dallas/Ft. Worth
- >> Denver
- >> Houston *(World Headquarters)*
- >> Long Boat Key
- >> Memphis
- >> Miami
- >> New York
- >> Panama City
- >> San Diego
- >> Washington DC

Aruba
- >> Oranjestad

Canada
- >> Montreal

Colombia
- >> Bogota

Ecuador
- >> Guayaquil
- >> Quito

Mexico
- >> Mexico City
- >> Monterrey
- >> Puebla

Peru
- >> Lima

Switzerland
- >> Zurich

Venezuela
- >> Caracas
- >> Maracaibo
- >> Valencia

Virgin Islands
- >> Coolidge
- >> St. John's

Investment Process Overview

A personal investment proposal for
(Client Name)
(Date)

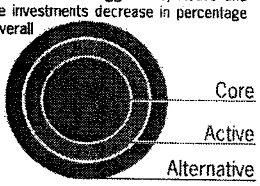
prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Investment Philosophy

Assets should be invested in a well-balanced global portfolio of marketable financial instruments, namely U.S. and international securities and fiduciary placements. The investment strategy is set by the consultations that takes place between the Financial Planner/Consultant/Money management team and the Client, and structured to be in concert with the Strategic Investment Allocations that are prepared for both the accredited and non-accredited investor within the following three major targeted returns:(1) Income, (2) Balanced, (3) Growth.

About Investment Categories

A portfolio's composition usually includes a blend of Core, Active and Alternative investment categories. Active and Alternative investments will comprise more of a portfolio's percentage as goals become more agresssive; conversely, as goals become less aggressive, Active and Alternative investments decrease in percentage to the overall portfolio.



Investment Categories

Core	Active	Alternative
>> Larger-Cap Stocks	>> Smaller-Cap Stocks	>> Special Opportunities
>> Mid-Cap Stocks	>> High-Yield Bonds	>> Alternatives
>> Investment-Grade Bonds	>> Global High-Yield	>> Commodities / Metals
>> Developed International Stocks	>> Emerging Market Stocks	>> Natural Resources
	>> TIPS	>> Real Estate

Investment Portfolios, Goals & Tolerances

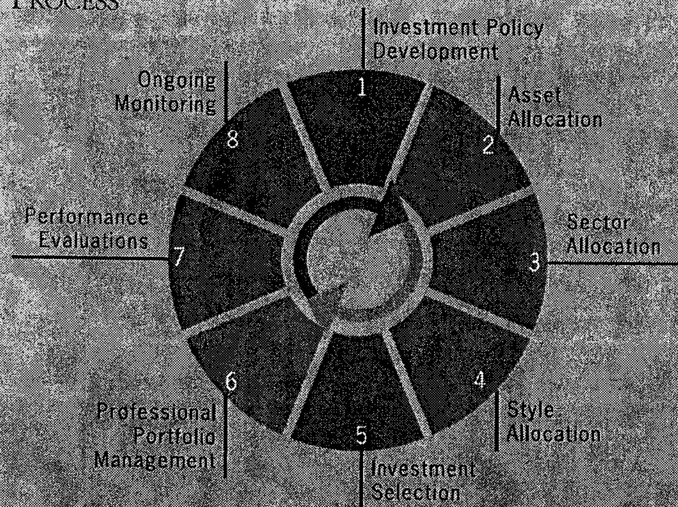
	Income	Balanced	Growth
Portfolio Strategy Target:	annual yield of CPI to CPI plus 300 - 500 bps	annual return of 6 - 10%	annual return in excess of 10%
Cash & Fiduciary Deposits:	20 - 50%	10 - 30%	10 - 30%
Government Bonds:	20 - 50%	10 - 30%	5 - 20%
Corporate Bonds:	10 - 20%	10 - 20%	10 - 20%
Equity:	0 - 20%	10 - 40%	20 - 60%
Alternative Investments:	0 - 20%	0 - 20%	10 - 30%
Coins & Bullion:	0 - 10%	0 - 10%	0 - 10%
Real Estate:	0 - 10%	0 - 10%	0 - 10%
Private Equity:	0 - 10%	0 - 10%	0 - 10%

INVESTMENT PROCESS OVERVIEW

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

INVESTMENT PROCESS



OVERVIEW OF MUTUAL FUND PARTNERS PLUS

Features of our Mutual Fund Partners Plus program include the following:

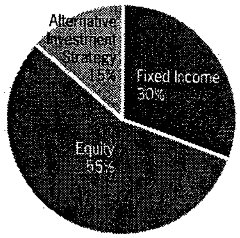
- >> Strategically managed mutual fund allocation
- >> Limited-discretion, advisory, and fee-based accounts
- >> Asset allocation recommendation reflecting client's rate of return expectation and volatility tolerance
- >> Mutual fund selections based on qualitative and quantitative screening and ongoing due diligence
- >> Active account management
- >> Quarterly performance reviews
- >> Trade Confirmations
- >> Monthly account statements
- >> Continous research and oversight of the managed account
- >> Automatic rebalancing
- >> All trades done by IAG

Asset Allocation

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Proposed Macro Allocation

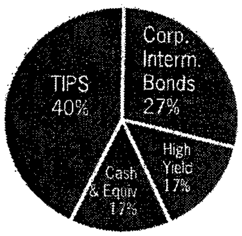


Macro Asset Allocation

The first step in the selection process is the Broad, or Macro, Asset Allocation, which determines how your portfolio will be divided among key asset classes of stocks, bonds, alternative investments, and cash. Studies have shown that greater than 90% of the variation in portfolio returns can be attributed to the asset allocation policy. Asset allocation is based on the proven theory that the type or classof security you own is much more important than the particular security itself. Asset allocation is a way to control risk in your portfolio. Over longer term periods, aspects such as security selection, market timing and other factors have had little impact on a portfolio's overall performance.

Asset Class	Percent	Dollar Allocation
Fixed Income	30.0%	$14,700.00
Equity	55.0%	$26,950.00
Alternatives	15.0%	$7,350.00
Total	100.0%	$49,000.00

Proposed Micro Allocation



Micro Asset Allocation

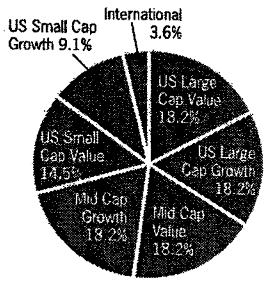
To enhance returns and reduce risk, Stanford Group recommends further diversifying your broad asset classes into more defined asset classes, or Micro Asset Allocation. This methodology has its foundation in the tenets of Modern Portfolio Theory, which was developed in the 1950's by Professor Harry Markowitz. This concept earned Markowitz the 1990 Nobel Peace Prize in Economic Science.

Fixed Allocation

Assets allocated to the fixed income portion of the portfolio attempt to reduce portfolio volatility, maintain capital preservation, and provide for income needs. Historically bond prices have maintained an inverse relationship with equities. This non-correlated relationship with equities allows for additional additional portfolio diversification due to the fact that their prices do not move in tandem.

Further, bonds can be separated into additional types of fixed income asset additional types of fixed income asset classes (i.e. high-yield, munis, corporate, government, and global). Each of these asset classes responds in a different way to any given market condition.

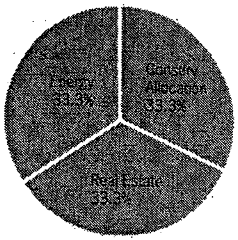
Investment	Style	Allocation %	Allocation $
Managers Fremont Bond	Interm. Corp. Bond	26.7%	$3,920.00
Pioneer Global High Yield	High Yield	16.7%	$2,450.00
Cash	Cash	16.7%	$2,450.00
Vanguard Infl Prt	Interm. Govt Bond	40.0%	$5,880.00
Total		100.0%	$14,700.00



Equity Allocation

Stocks are often grouped by the size of the companies they invest in — large or small. Size is defined as a company's value on the stock market, the number of shares it has outstanding multiplied by the share price. This is known as market capitalization, or cap size. Big companies tend to be less risky than small businesses, but smaller companies can often offer more growth opportunities.

Manager	Style	Allocation %	Allocation $
Hancock Classic Value	Large Value	18.2%	$4,900.00
Marsico Growth	Large Growth	18.2%	$4,900.00
Artisan Mid Cap	Mid Value	18.2%	$4,900.00
Calamos Growth	Mid Growth	18.2%	$4,900.00
Keely Small Value	Small Value	14.5%	$3,920.00
Touchstone Growth	Small Growth	9.1%	$2,450.00
EuroPacific	International	3.6%	$980.00
Total		100.0%	$26,950.00



Alternative Allocation

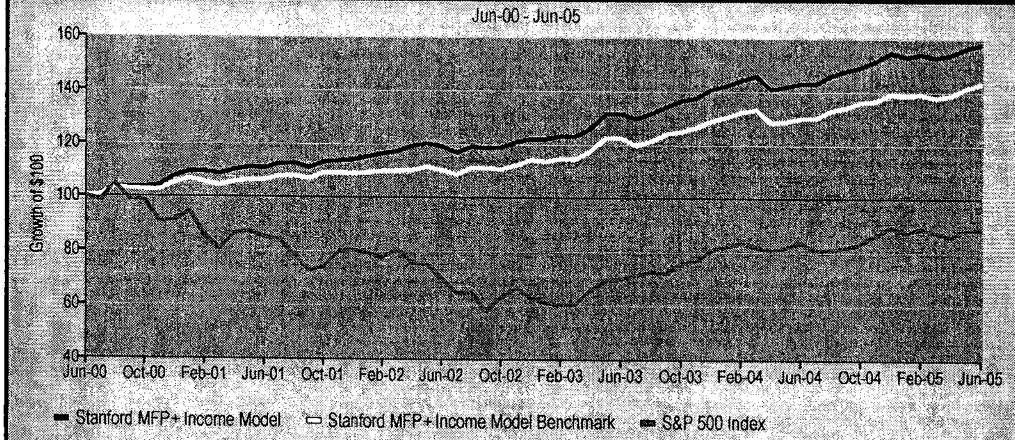
Alternative investment strategies are utilized to manage risk while providing upside growth potential through absolute returns. Skill-based managers add value to the portfolio diversification process by actively participating in inefficient markets. Their skill and flexibility is what differentiates these strategies from the traditional market based approach. The results delivered are an uncorrelated set of returns which, when combined in a fund of funds approach, reduce overall portfolio volatility (i.e. combining differing skills and techniques).

Investment	Style	Allocation %	Allocation $
Permanent Portfolio	Conservative Allocation	33.3%	$2,450.00
Alpine Realty	REITS	33.3%	$2,450.00
Ivy Energy	Energy	33.3%	$2,450.00
Total		100.0%	$14,700.00

Mutual Fund Partners Plus Hypothetical Performance	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

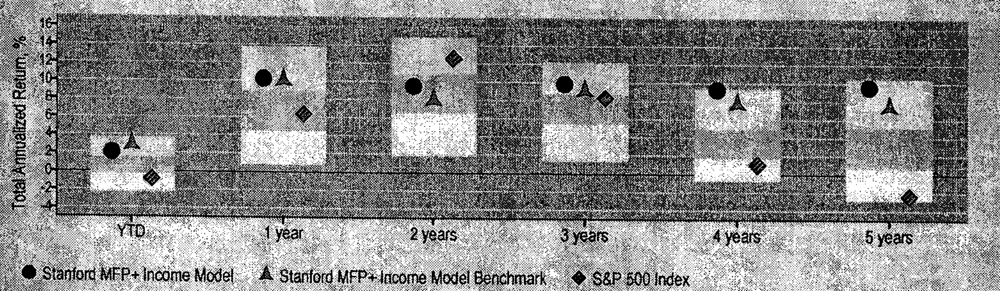
Performance

Growth of Assets



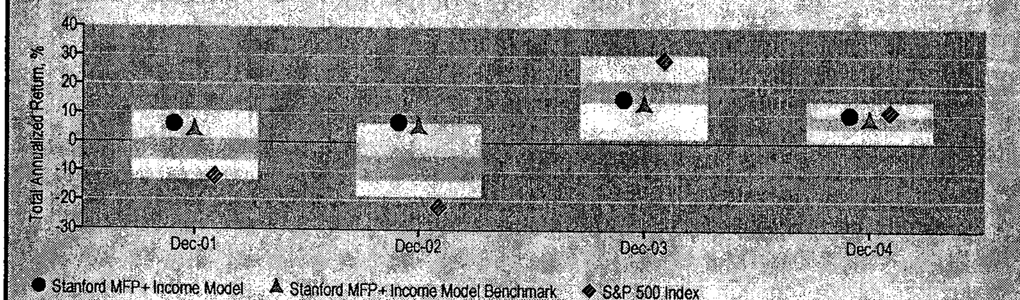
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Stanford MFP+ Income Model	9.56	9.23	9.81	9.49	10.22	2.05
Stanford MFP+ Income Model Benchmark	7.44	7.70	9.10	7.99	10.07	2.89
S&P 500 Index	-2.57	1.01	8.28	12.53	6.32	0.81
Morningstar Allocation Universe Median	2.54	3.65	7.00	9.00	6.81	0.67



Calendar Year Returns

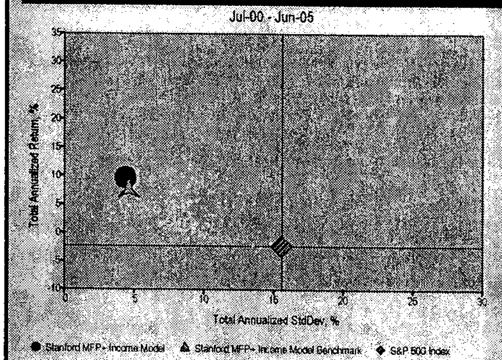
	2001	2002	2003	2004
Stanford MFP+ Income Model	6.12	6.92	15.23	9.92
Stanford MFP+ Income Model Benchmark	3.66	4.93	13.01	7.80
S&P 500 Index	-11.88	-22.10	28.68	10.88
Morningstar Allocation Universe Median	-3.40	-9.49	18.21	7.98



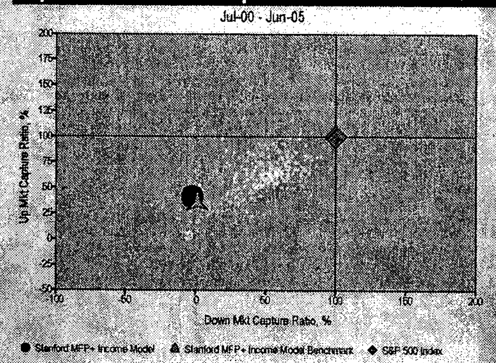
Mutual Fund Partners Plus Hypothetical Performance	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



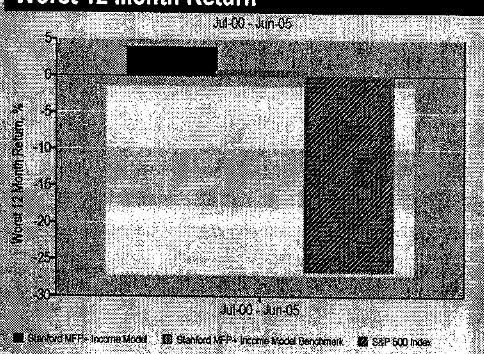
Up\Down Market Capture vs. Universe



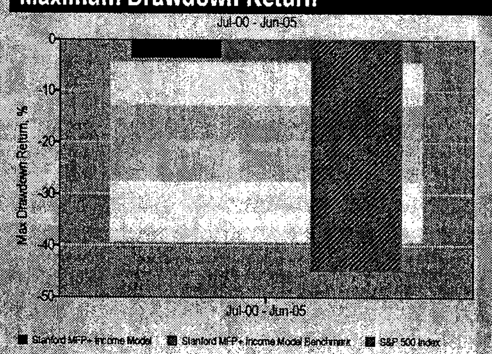
Risk\Return Statistics

Jul-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Stanford MFP+ Income Model	4.40	4.24	-3.37	41.32	2.18	7.35	0.15	29.00	1.54
Stanford MFP+ Income Model Benchmark	4.62	4.17	-3.74	35.26	1.48	5.37	0.15	24.57	1.04
S&P 500 Index	15.60	8.80	-10.87	100.00	100.00	0.00	1.00	100.00	0.23
Morningstar Allocation Universe Median	9.12	5.68	-6.21	63.34	48.52	1.98	0.53	82.75	0.05

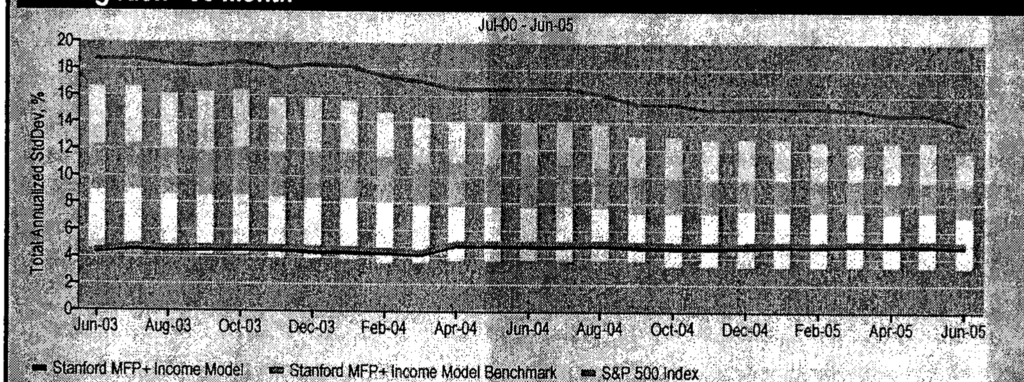
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Managers Fremont Bond
MBDFX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

Prospectus Objective	Corporate Bond - General
Morningstar Category	Intermediate-term Bond
Net Assets $MM	943.20
% Assets in Top 10 Holdings	19.08
Total Number of Holdings	457.00
Avg Eff Duration	6.64
Avg Credit Quality	AA
Manager Tenure	11.00
Inception Date	04/30/1993
Expense Ratio	0.60

Managers Investment Group LLC ("Managers") is an investment advisory firm offering a wide range of investment disciplines and solutions, including mutual funds, separate account strategies, multiple attribute portfolios, and sub-advisory services. The investment disciplines available through Managers span most asset classes and capitalization ranges. Virtually all of the assets are managed by outside investment management firms that are notable for their long-term track record, consistent adherence to investment process, and strength of the management team.

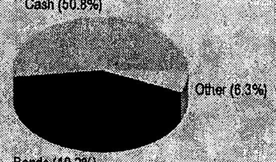
Objectives and Strategies

Philosophy: The Managers Fremont Bond Fund is an actively managed, diversified bond fund that focuses on intermediate-term, investment-grade bonds. The universe for the Fund includes all sectors of the bond market: governments, corporate bonds, mortgages, asset-backed securities, money market instruments and international bonds. The Fund seeks total return consistent with preservation of capital by employing PIMCO's "Total Return" fixed investment philosophy. This philosophy follows three key principles: *1. Major shifts in portfolio strategy are driven by longer-term, or secular, trends as opposed to short-term interest rate fluctuations. 2.Consistent investment performance is achieved by avoiding extreme swings in maturity/duration of a portfolio. 3. Emphasis is placed on adding value through state-of-the-art tools such as futures, options and volatility analysis*

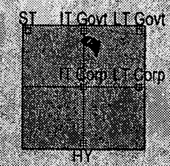
Fund Objective: The Managers Fremont Bond Fund seeks to maximize total return consistent with the preservation of capital by investing in debt securities such as corporate, mortgage backed, international and government bonds. Normally, the Fund will invest at least 80% of its total assets in these types of bonds.

Fund Strategy: The Managers Fremont Bond Fund management's focus on longer-term (three- to five-year) trends recognizes that such factors as demographics, political conditions and structural changes in the economy exert powerful, sustained influences on interest rates. Thus, a secular outlook updated annually determines a general maturity/duration (interest rate sensitivity) range for the portfolio in relation to the market. Management normally keeps duration within a moderate range and utilizes all major sectors of the fixed-income market. The Fund's benchmark is the Lehman Brothers Aggregate Municipal Bond Index.

Asset Allocation



Style Allocation



Sector Allocation

US Govt/ Agency	0.00%
AAA	66.01%
AA	8.87%
A	10.24%
BBB	8.92%
BB	1.33%
B	0.59%
Below B	0.20%
NR/NA	3.84%

Top Ten Holdings as of 06/30/2005

US Treasury Note 4.875%	3.89%
FNMA 5.5%	3.43%
FNMA 5%	3.20%
FNMA 5.5%	2.33%
FNMA 5.5%	1.20%
FNMA 5.5%	1.13%
FNMA 5.5%	1.06%
FNMA 5.5%	1.04%
FHLMC CMO 6.5%	1.01%
Jpn 10y Bond(Tse)	0.79%

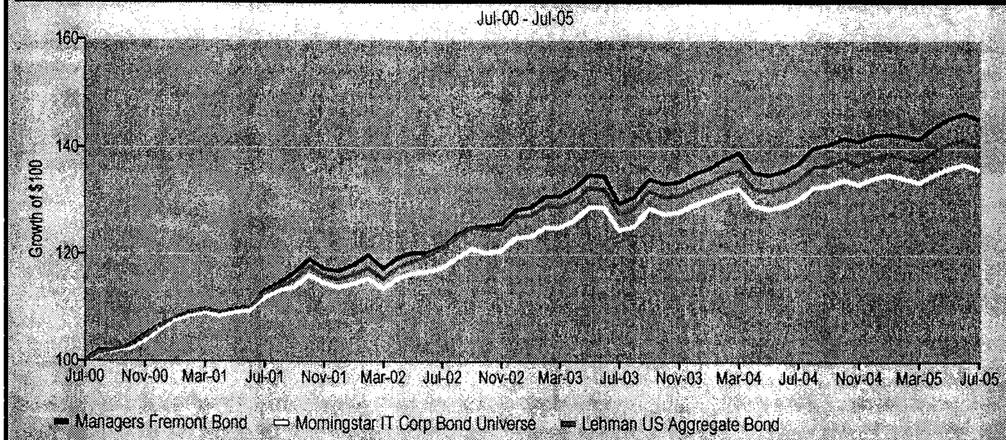
Manager Profiles
Managers Fremont Bond
MBDFX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

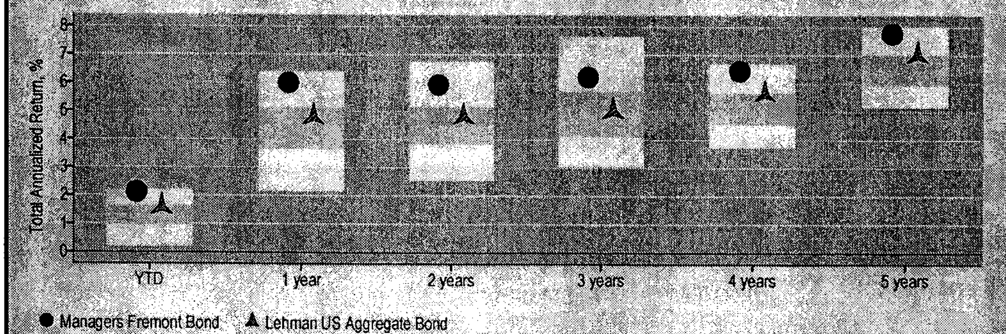
Performance

Growth of Assets



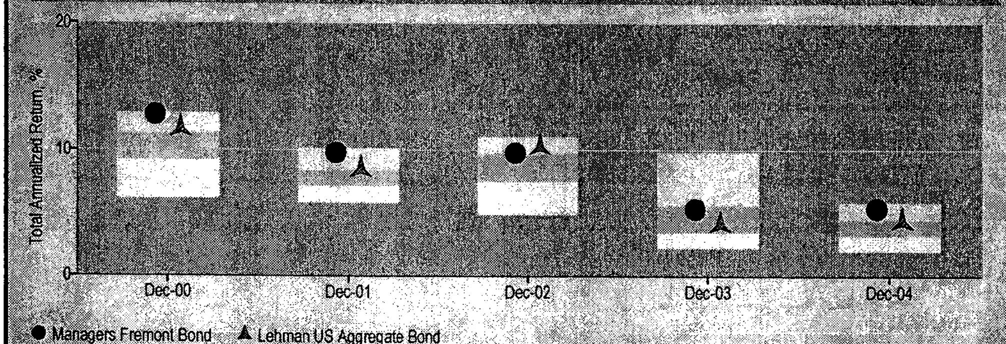
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Managers Fremont Bond	2.12	5.99	5.93	6.21	6.43	7.77
Lehman US Aggregate Bond	1.58	4.79	4.81	5.02	5.64	7.01
Morningstar IT Corp Bond Universe Median	1.38	4.54	4.57	4.95	5.12	6.52



Calendar Year Returns

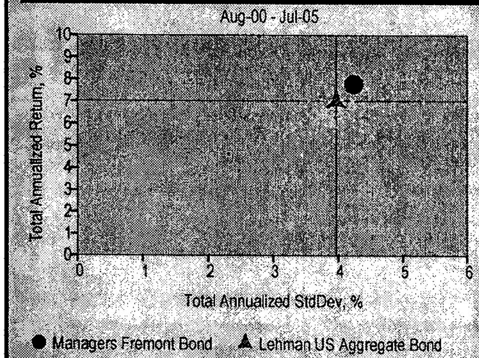
	2000	2001	2002	2003	2004
Managers Fremont Bond	12.77	9.77	9.78	5.32	5.33
Lehman US Aggregate Bond	11.63	8.44	10.25	4.10	4.34
Morningstar IT Corp Bond Universe Median	10.50	7.92	8.80	4.35	4.04



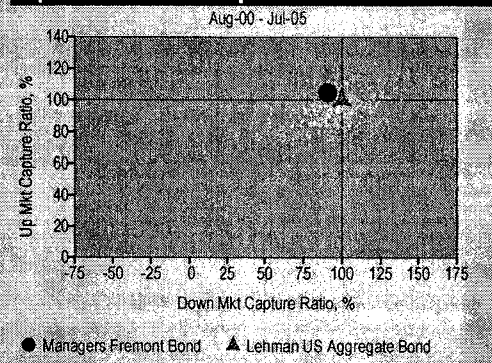
Manager Profiles Managers Fremont Bond MBDFX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk &
Risk-Adjusted Return

Risk\Return vs. Universe



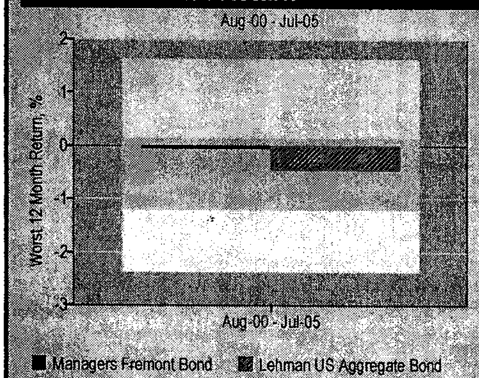
Up\Down Market Capture vs. Universe



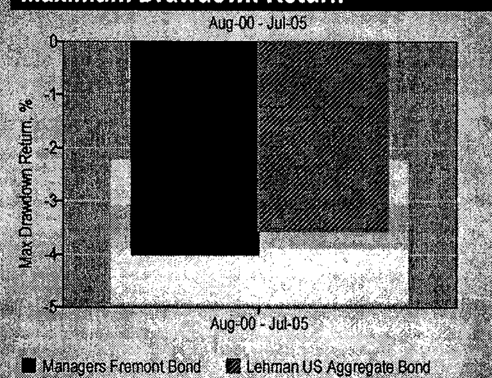
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Managers Fremont Bond	4.25	3.32	-3.77	104.59	90.86	0.58	1.03	92.76	1.24
Lehman US Aggregate Bond	3.97	2.65	-3.35	100.00	100.00	0.00	1.00	100.00	1.14
Morningstar IT Corp Bond Universe Median	3.94	2.70	-3.32	93.47	94.50	-0.32	0.95	93.44	1.03

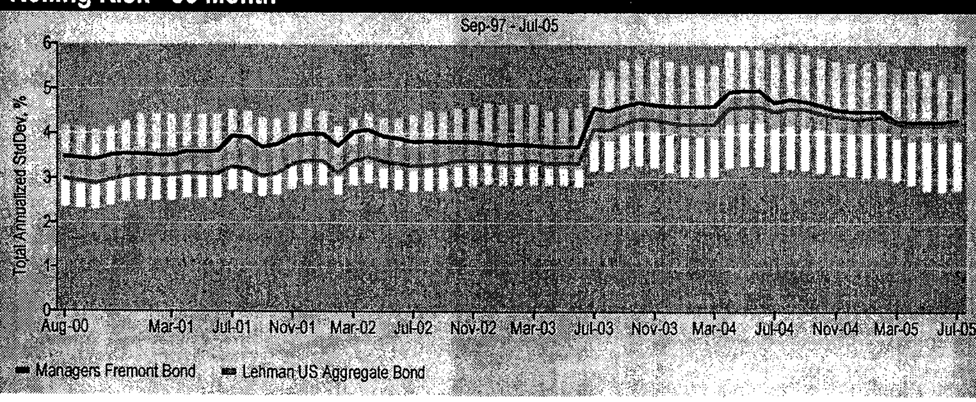
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Pioneer Global High Yield A
PGHYX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

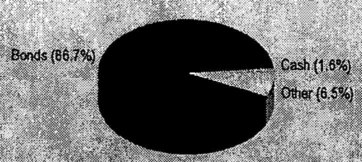
Prospectus Objective	Income
Morningstar Category	High Yield Bond
Net Assets $MM	306.38
% Assets in Top 10 Holdings	15.58
Total Number of Holdings	184.00
Avg Eff Duration	4.82
Avg Credit Quality	B
Manager Tenure	4.00
Inception Date	08/23/2001
Expense Ratio	0.75

Andrew Feltus, portfolio manager, is responsible for the day-to-day management of the Fund. Mr. Feltus joined Pioneer in 1994. A team of experienced fixedincome portfolio managers and analysts, reporting to Kenneth J. Taubes, director of fixed income, supports Mr. Feltus. The team may draw upon the research and investment management expertise of Pioneer's affiliate, Pioneer Investment Management Limited, based in Dublin, Ireland.

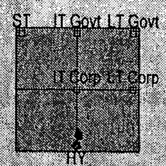
Objectives and Strategies

The Fund seeks to maximize total return through a combination of income and capital appreciation by actively managing a portfolio of below-investment-grade (high-yield) debt securities and preferred stocks of U.S. and non-U.S. issuers, including emerging markets. Below-investment-grade bonds are rated BBB- or lower by Standard & Poor's Corp., or a similar national rating agency. **Why Pioneer Global High Yield Fund?** *Actively adjusts a blend of fixed-income securities to manage risk and enhance yield while offering capital appreciation potential; Draws upon the expertise of Pioneer global bond management team.* This fund sports an outstanding record. Most of the offerings in its category have turned in very strong results over the past five years, but even compared with its peers, the fund's returns for that period are among the best. We focus on five-year returns because longer records have greater predictive power than shorter records. Be sure to find out how much risk the fund took on to produce these results, however. You can get an idea of this by looking at the risk component of the star rating and fundamental risk factors such as the P/E ratio, the size of individual stock bets, and the extent to which certain sectors are over-weighted. Investing in foreign and/or emerging markets securities involves risks relating to interest rates, currency exchange rates, economic, and political conditions. Investments in high yield or lower-rated securities are subject to greater-than-average risk. Because the portfolio invests in a limited number of companies a change in one security's value may have a more significant effect on the portfolio's value. Investments in the fund are subject to possible loss due to the financial failure of underlying securities and their inability to meet their debt obligations.

Asset Allocation



Style Allocation



Sector Allocation

US Govt/ Agency	0.30%
AAA	0.00%
AA	0.00%
A	0.00%
BBB	9.90%
BB	26.10%
B	42.80%
Below B	16.20%
NR/NA	4.70%

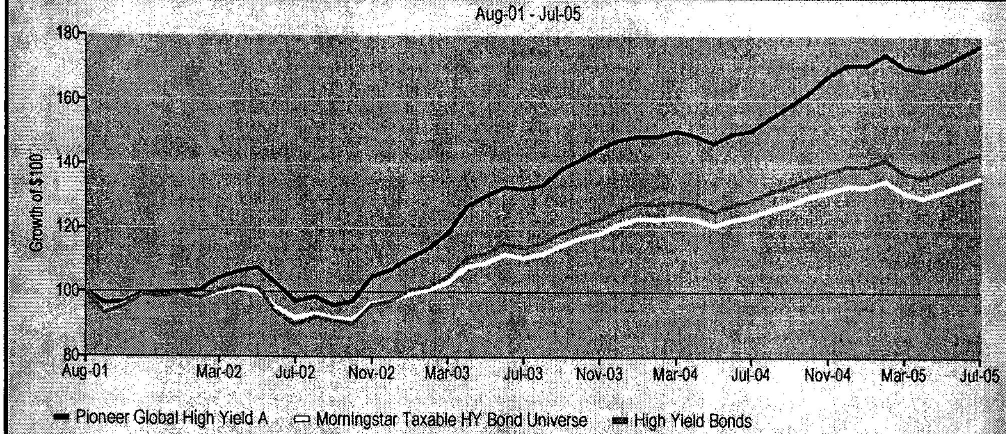
Top Ten Holdings as of 05/31/2005

Braskem S A Medium Term Nts 11.75%	1.94%
Kvaerner A.S.	1.91%
Mcdermott J Ray S A 144A 11%	1.80%
Noble Grp 144A 6.625%	1.68%
Kosa Lux Fin B V / Kosa Uk Fin 144A	1.55%
Csn Islands Ix 144A 10%	1.42%
Graham Packaging 144A 9.875%	1.37%
Stanadyne Hldgs 144A	1.34%
Continental Air 2001-2 7.568%	1.34%
Chivor S A E S P 144A 9.75%	1.24%

Manager Profiles Pioneer Global High Yield A ?GHYX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

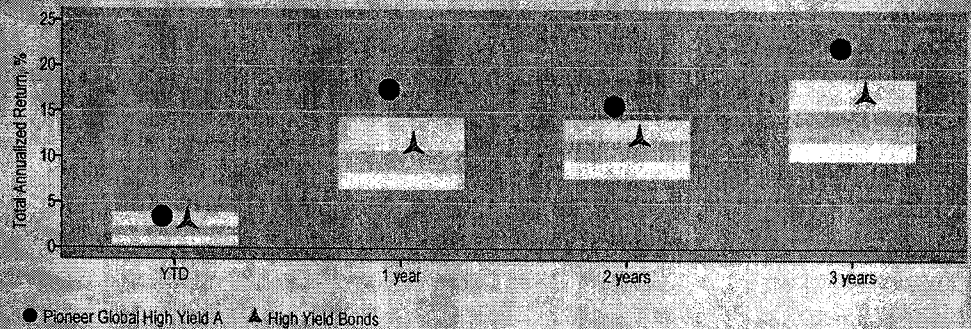
Performance

Growth of Assets



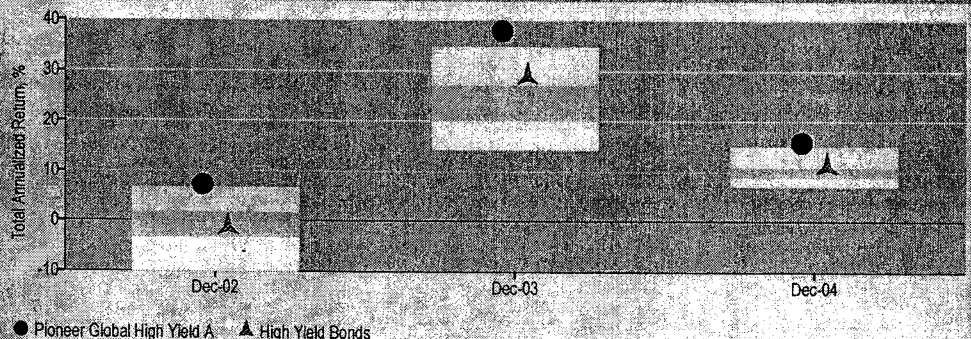
Trailing Returns

	YTD	1 year	2 years	3 years
Pioneer Global High Yield A	3.45	17.49	15.70	22.12
High Yield Bonds	2.88	11.28	12.17	16.90
Morningstar Taxable HY Bond Universe Median	2.00	9.50	10.81	13.77



Calendar Year Returns

	2002	2003	2004
Pioneer Global High Yield A	7.24	37.98	15.81
High Yield Bonds	-1.41	28.97	11.13
Morningstar Taxable HY Bond Universe Median	-0.20	24.12	10.25



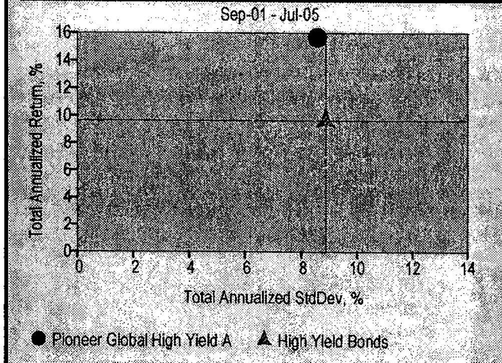
Manager Profiles
Pioneer Global High Yield A
?GHYX

A personal investment proposal for
(Client Name)
(Date)

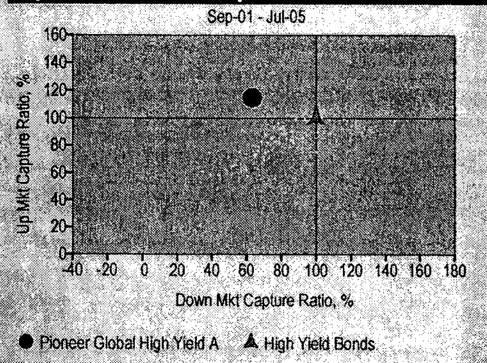
prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



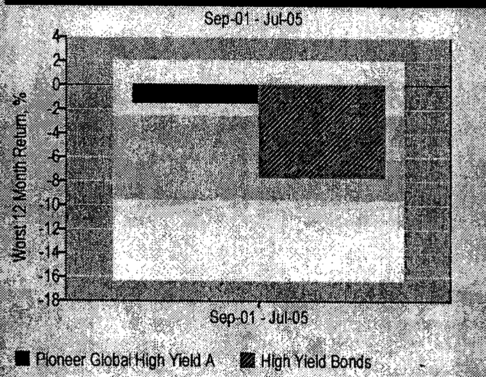
Up\Down Market Capture vs. Universe



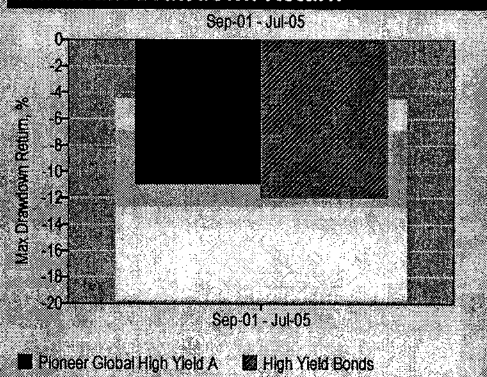
Risk\Return Statistics

Sep-01 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Pioneer Global High Yield A	8.60	7.89	-5.28	114.87	63.39	6.34	0.88	82.23	1.54
High Yield Bonds	8.89	6.19	-7.37	100.00	100.00	0.00	1.00	100.00	0.89
Morningstar Taxable HY Bond Universe Median	7.66	5.49	-6.45	83.83	82.40	0.55	0.82	90.10	0.90

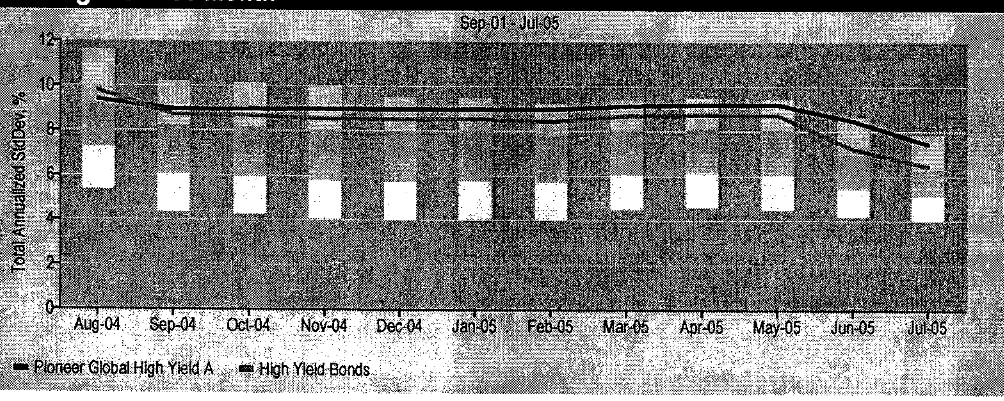
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles Vanguard Inflation-Protected Secs VIPSX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Fund Information

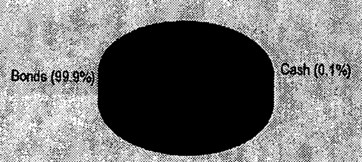
Prospectus Objective	Government Bond - Treasury
Morningstar Category	Intermediate Government
Net Assets $MM	7154.04
% Assets in Top 10 Holdings	85.91
Total Number of Holdings	17.00
Avg Eff Duration	6.76
Avg Credit Quality	AAA
Manager Tenure	5.00
Inception Date	06/29/2000
Expense Ratio	0.17

Seeks long-term returns that exceed inflation by investing in high-quality inflation-indexed bonds with an average maturity of 7 to 20 years. These securities, issued by the U.S. Treasury and government agencies as well as domestic corporations, automatically adjust their principal and interest payments over time in response to changes in inflation.

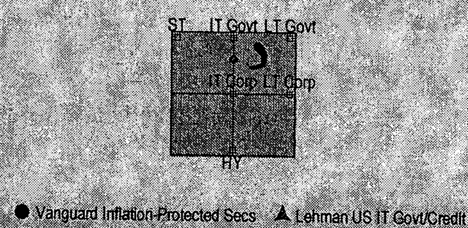
Objectives and Strategies

The fund invests at least 80% of its assets in inflation-indexed bonds issued by the U.S. government, government agencies, and corporations. The fund may invest in bonds of any maturity; however, its dollar-weighted average maturity is expected to be in a range of 7 to 20 years. At a minimum, all bonds purchased by the fund will be rated "investment grade." Up to 20% of the fund's assets may be invested in holdings that are not inflation-indexed. The fund will make such investments primarily when inflation-indexed bonds are less attractive. The fund's non-inflation-indexed holdings may include the following: **1. Corporate debt obligations. 2. U.S. government and agency bonds. 3. Cash investments. 4. Futures, options, and other derivatives.** The fund may invest up to 20% of its total assets in bond futures contracts, options, credit swaps, interest rate swaps, and other types of derivatives. These contracts may be used to keep cash on hand to meet shareholder redemptions or other needs while simulating full investment in bonds, to reduce transaction costs, for hedging purposes, or to add value when these instruments are favorably priced. Losses (or gains) involving futures can be substantial—in part because a relatively small price movement in a futures contract may result in an immediate and substantial loss (or gain) for the fund. Similar risks exist for other types of derivatives. For this reason, the fund will not use derivatives for speculative purposes or as leveraged investments that magnify the gains or losses of an investment. **5. Restricted or illiquid securities.** Restricted securities are privately placed securities that generally can only be sold to qualified institutional buyers and, hence, could be difficult for the fund to convert to cash, if needed. The fund will not invest more than 15% of its assets in such illiquid securities. **6. Mortgage dollar rolls** are transactions in which a fund sells mortgage-backed securities to a dealer and simultaneously agrees to purchase similar securities in the future at a predetermined price. These transactions simulate an investment in mortgage-backed securities and have the potential to enhance a fund's returns and reduce its administrative burdens, compared with holding mortgage-backed securities directly. These transactions may increase a fund's portfolio turnover rate. Mortgage dollar rolls will be used only if consistent with a fund's investment objective and risk profile.

Asset Allocation



Style Allocation



Sector Allocation

US Govt Agency	0.00%
AAA	100.00%
AA	0.00%
A	0.00%
BBB	0.00%
BB	0.00%
B	0.00%
Below B	0.00%
NR/NA	0.00%

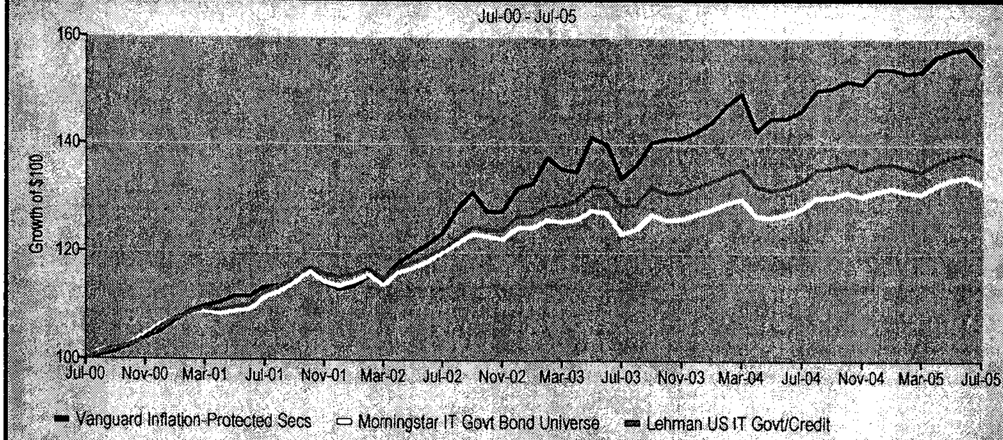
Top Ten Holdings as of 03/31/2005

US Treasury Bond 2.375%	17.39%
US Treasury Note 2%	11.18%
US Treasury Note 1.875%	10.47%
US Treasury Note 3%	10.33%
US Treasury Note 3.875%	7.27%
US Treasury Bond 3.625%	6.74%
US Treasury Note 3.375%	6.40%
US Treasury Note 2%	6.04%
US Treasury Note 3.625%	5.20%
US Treasury Note 0.875%	4.89%

Manager Profiles Vanguard Inflation-Protected Secs VIPSX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

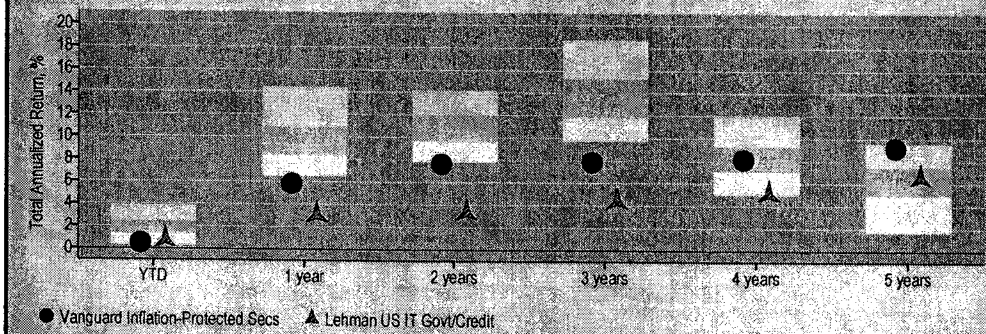
Performance

Growth of Assets



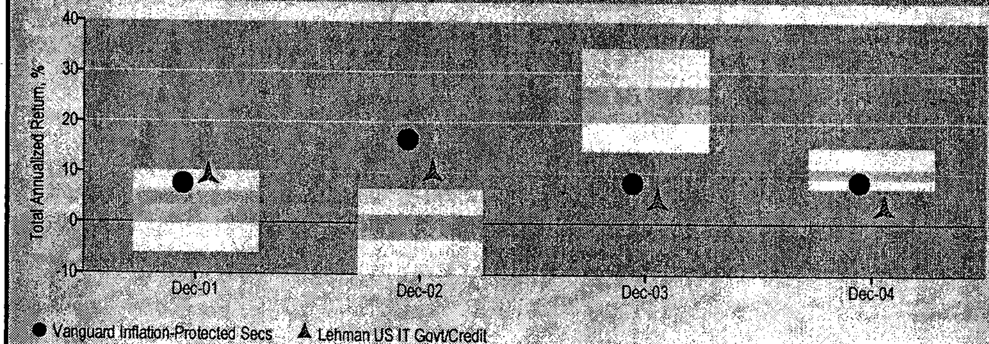
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Vanguard Inflation-Protected Secs	0.51	5.86	7.65	7.87	8.11	9.16
Lehman US IT Govt/Credit	0.75	3.06	3.32	4.39	5.09	6.53
Morningstar IT Govt Universe Median	2.00	9.50	10.81	13.77	8.18	6.40



Calendar Year Returns

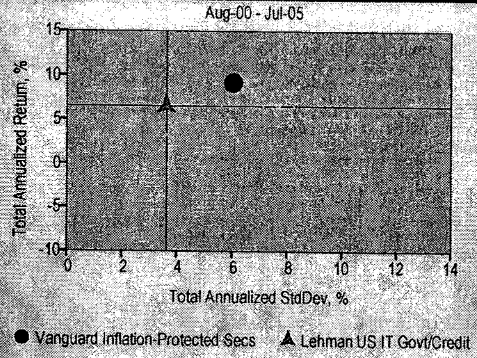
	2001	2002	2003	2004
Vanguard Inflation-Protected Secs	7.61	16.61	8.00	8.27
Lehman US IT Govt/Credit	8.96	9.84	4.31	3.04
Morningstar IT Govt Universe Median	3.50	-0.20	24.12	10.25



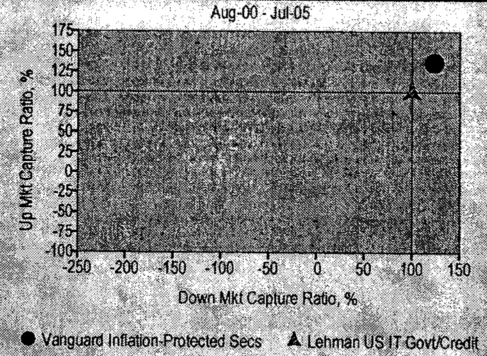
prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



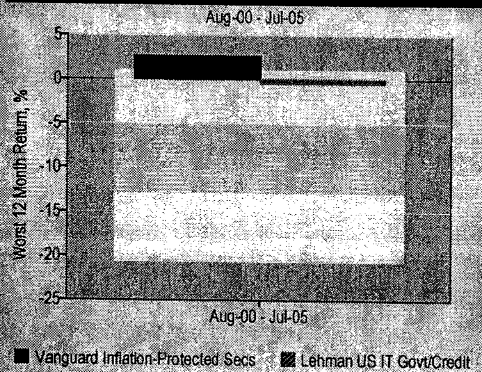
Up\Down Market Capture vs. Universe



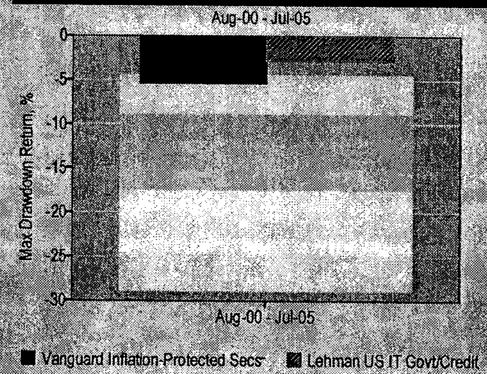
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Vanguard Inflation-Protected Secs	6.05	4.73	-4.69	136.80	123.53	0.84	1.43	71.32	4.08
Lehman US IT Govt/Credit	3.64	2.53	-2.72	100.00	100.00	0.00	1.00	100.00	1.12
Morningstar IT Govt Universe Median	8.15	6.65	-6.53	37.65	103.29	3.72	0.03	0.12	0.53

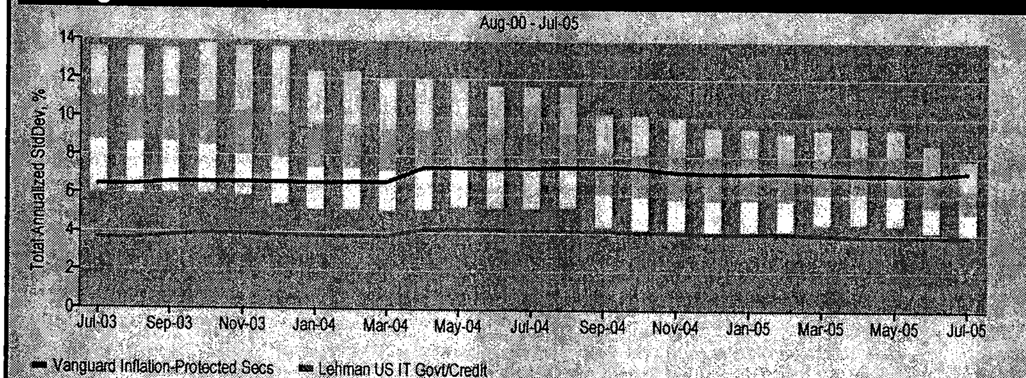
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles John Hancock Classic Value A PZFVX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Fund Information

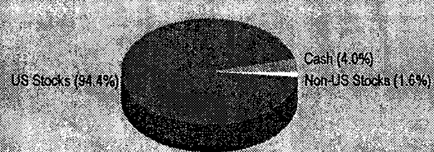
Prospectus Objective	Growth
Morningstar Category	Large Value
Net Assets $MM	2191.62
% Assets in Top 10 Holdings	40.24
Total Number of Holdings	38.00
Manager Tenure	9.00
Inception Date	06/24/1996
Expense Ratio	1.30

Richard Pzena has been the lead manager for nearly a decade after leaving Sanford Bernstein. Twelve investment professionals round out the analyst and management team.

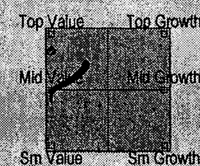
Objectives and Strategies

The Fund seeks long-term growth of capital. To pursue this goal, the Fund invests primarily in domestic equity securities and, normally, will invest at least 80% of net assets in such securities. The Sub-Adviser seeks to buy securities of companies that, in its opinion, are undervalued relative to the market, based on estimated future earnings and cash flow. These companies generally have market values at valuation ratios, such as price to book, below market average, as defined by the S&P 500 Index. The Fund is non-diversified and may invest more than 5% of total assets in securities of individual companies. The Sub-Adviser has a research team consisting of persons with extensive experience managing or advising large public businesses. In choosing individual securities, the Sub-Adviser screens a universe of the 500 largest publicly traded U.S. companies. Using fundamental research and a proprietary computer model, the Sub-Adviser ranks these companies from the cheapest to the most expensive on the basis of current share price to the Sub-Adviser's estimate of normal long-term earnings power. The Sub Adviser's management team intensively evaluates the cheapest companies to construct a portfolio of stocks that the Sub-Adviser believes generally have the following characteristics: *cheap on the basis of current price to estimated normal level of earnings; current earnings below normal levels; a sound plan to restore earnings to normal; a sustainable business advantage.* This systematic process is intended to ensure that the Fund's portfolio avoids the emotional inputs that can lead to overvalued securities. The Sub-Adviser approaches sell decisions from the same disciplined framework. The Sub-Adviser generally sells a security when it reaches fair value, there are more attractive opportunities, or there is a change in company fundamentals. On average, the Sub-Adviser generally expects to hold positions for three years. The Fund anticipates that its portfolio turnover rate will normally not exceed 80%. The lack of frequent trading has the potential to increase tax efficiency and may lead to lower transaction costs, which could help to improve performance.

Asset Allocation



Style Allocation



Sector Allocation

Software	6.91%
Hardware	4.46%
Media	0.00%
Telecommunications	0.00%
Healthcare	11.04%
Consumer Services	8.56%
Business Services	3.52%
Financial Services	40.89%
Consumer Goods	10.33%
Industrial Materials	8.43%
Energy	2.56%
Utilities	3.29%

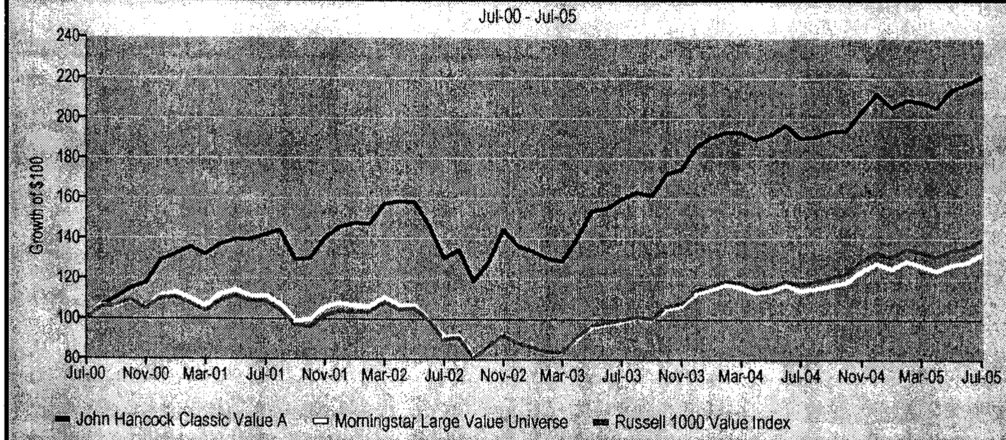
Top Ten Holdings as of 05/31/2005

Whirlpool	4.60%
Johnson Controls	4.46%
Metropolitan Life Insurance	4.44%
Hewlett-Packard	4.28%
Sara Lee	3.84%
XL Capital	3.81%
Citigroup	3.75%
Morgan Stanley	3.74%
Computer Associates International	3.68%
Boeing	3.64%

Manager Profiles John Hancock Classic Value A PZFVX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

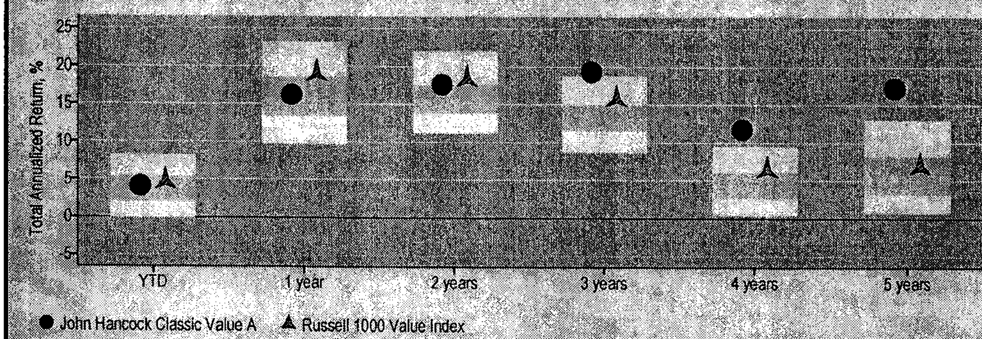
Performance

Growth of Assets



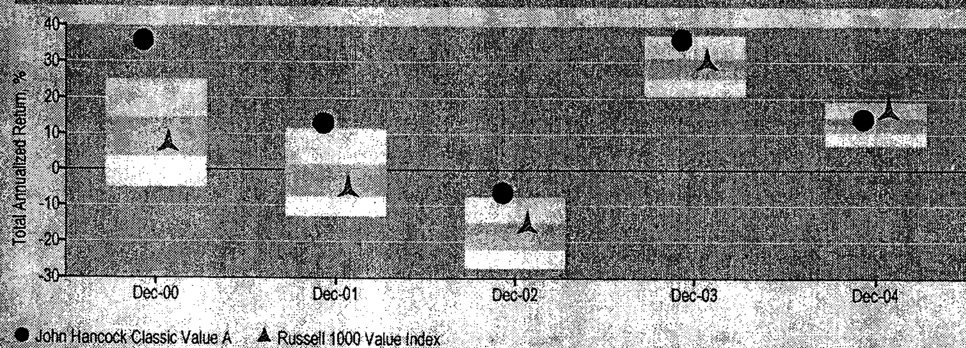
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
John Hancock Classic Value A	17.20	11.75	19.81	17.63	16.25	4.13
Russell 1000 Value Index	6.90	6.45	15.76	18.35	19.03	4.71
Morningstar Large Value Universe Median	5.93	4.61	13.48	15.89	15.99	3.67



Calendar Year Returns

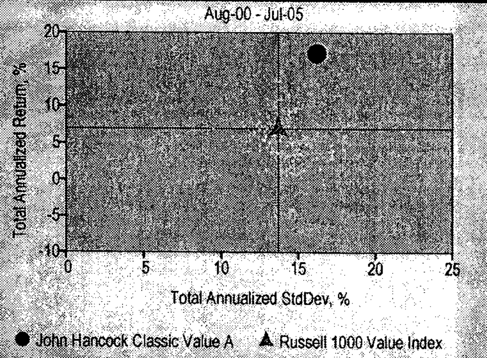
	2000	2001	2002	2003	2004
John Hancock Classic Value A	35.88	13.07	-6.37	38.25	14.28
Russell 1000 Value Index	7.02	-5.59	-15.52	30.03	16.49
Morningstar Large Value Universe Median	9.48	-3.29	-17.87	28.16	13.20



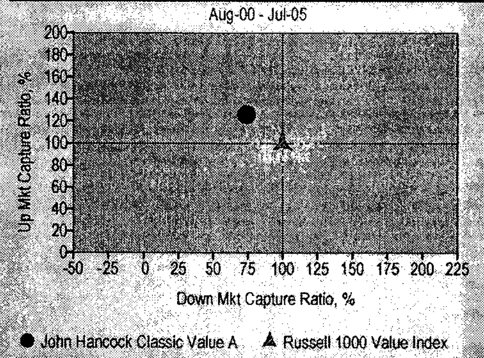
Manager Profiles John Hancock Classic Value A PZFVX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



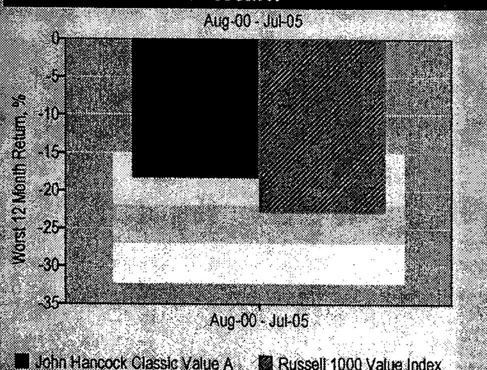
Up\Down Market Capture vs. Universe



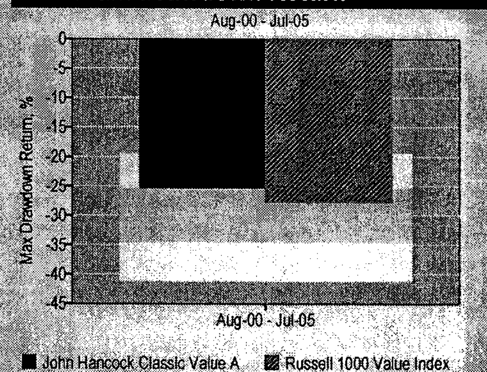
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
John Hancock Classic Value A	16.21	12.57	-11.64	125.86	74.21	9.33	1.06	81.40	0.92
Russell 1000 Value Index	13.70	8.80	-11.12	100.00	100.00	0.00	1.00	100.00	0.38
Morningstar Large Value Universe Median	14.26	8.78	-11.34	95.88	100.80	-0.74	0.99	90.25	0.30

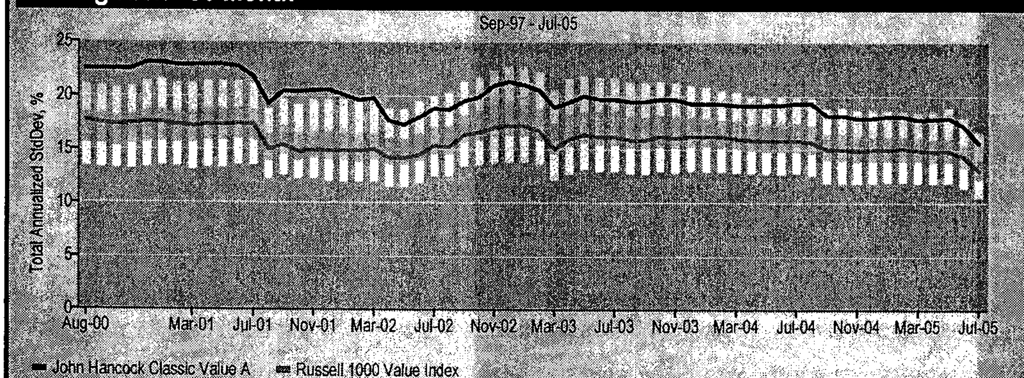
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles Calamos Growth A CVGRX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Fund Information

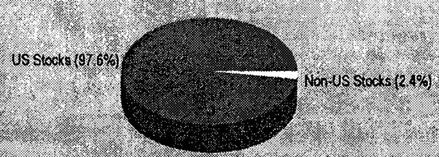
Prospectus Objective	Growth
Morningstar Category	Mid-Cap Growth
Net Assets $MM	11648.44
% Assets in Top 10 Holdings	25.00
Total Number of Holdings	175.00
Manager Tenure	15.00
Inception Date	09/04/1990
Expense Ratio	1.23

The CALAMOS Growth Fund targets securities of companies that offer above-average potential for earnings growth. In seeking to meet its objective, the Fund utilizes highly disciplined institutional management strategies that emphasize in-depth proprietary analysis of the securities and their issuing companies, and diversification across companies of various sizes and sectors of the market.

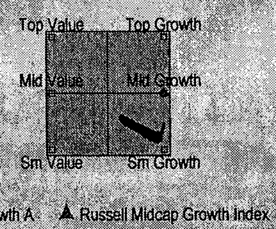
Objectives and Strategies

Strategy Characteristics: *Active, opportunistic investment management team prospects a broad universe of companies; Intense, research-driven investment process based on quantitative and qualitative analysis; Emphasizes attention to quality of businesses and sustainability of growth, not "hot" investment trends nor unsupported earnings; As a result, has historically participated more fully in upside phases of the market than in the down turns.* In pursuing its objective, the Fund seeks out securities of all market capitalizations and sectors that, in the investment advisor's opinion, offer the best potential for relatively high, long-term growth rates that are sustainable over time. To be selected for the portfolio, securities must satisfy specific criteria. The investment advisor uses quantitative screens to find companies with growth rates higher than their industry's average. These companies are then reviewed based on fundamental factors, such as return on capital, to determine if their growth is sustainable. Using proprietary cash flow valuation models, the investment advisor so assesses the stock's price potential and determines expected returns. Throughout the process, risk control measures are applied at the security, sector and portfolio level to help achieve the proper balance between risk and reward.

Asset Allocation



Style Allocation



Sector Allocation

Software	7.57%
Hardware	19.18%
Media	5.82%
Telecommunications	3.48%
Healthcare	9.25%
Consumer Services	19.23%
Business Services	7.54%
Financial Services	6.04%
Consumer Goods	6.18%
Industrial Materials	8.55%
Energy	7.16%
Utilities	0.00%

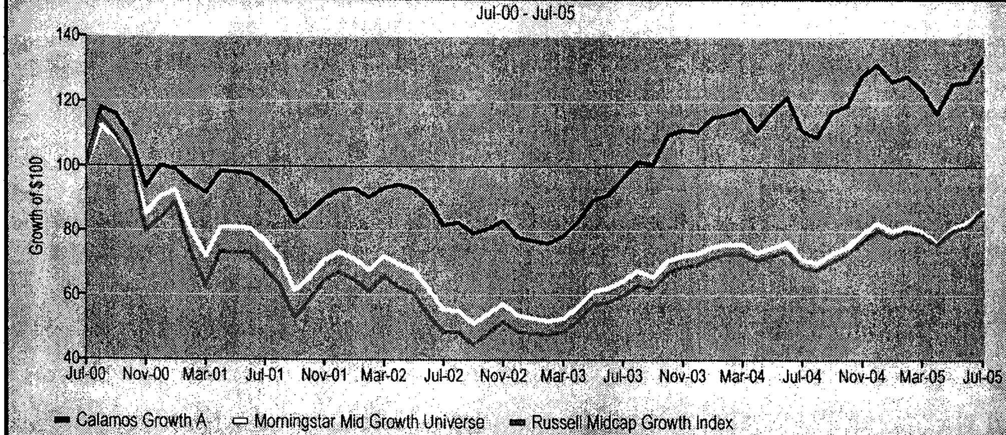
Top Ten Holdings as of 03/31/2005

Apple Computer	4.33%
Yahoo	3.10%
Amazon.com	2.94%
Motorola	2.64%
Qualcomm	2.56%
eBay	2.40%
Symantec	1.88%
Home Depot	1.75%
Costco Wholesale	1.74%
Electronic Arts	1.65%

Manager Profiles Calamos Growth A CVGRX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

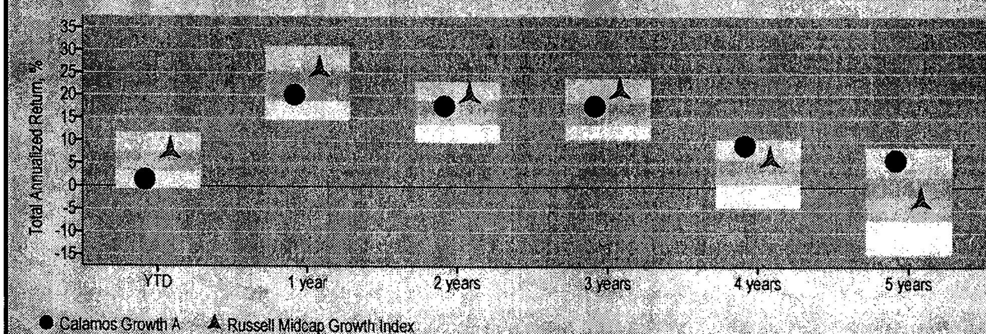
Performance

Growth of Assets



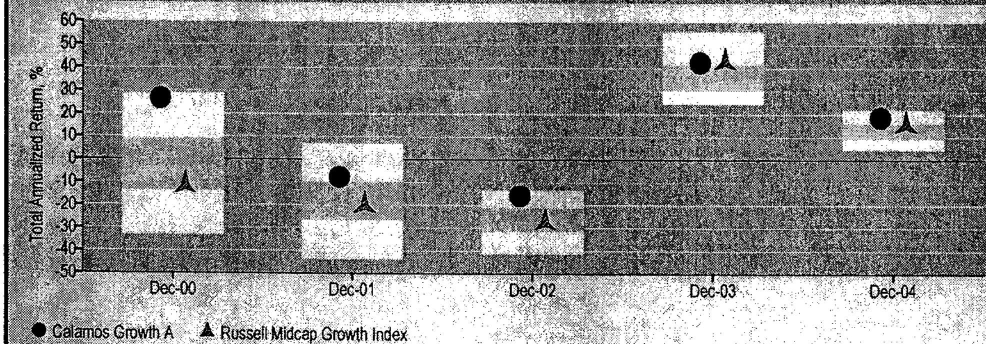
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Calamos Growth A	5.96	9.05	17.76	17.70	20.14	1.51
Russell Midcap Growth Index	-2.88	6.09	21.11	20.10	25.66	7.64
Morningstar Midcap Growth Universe Median	-2.44	3.48	16.51	16.59	22.78	5.87



Calendar Year Returns

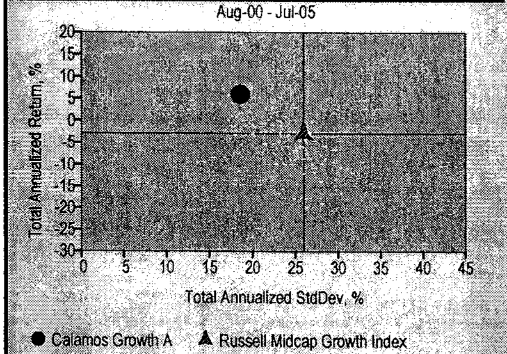
	2000	2001	2002	2003	2004
Calamos Growth A	26.59	-7.68	-15.88	42.34	18.65
Russell Midcap Growth Index	-11.75	-20.15	-27.41	42.71	15.48
Morningstar Midcap Growth Universe Median	-3.16	-19.15	-26.56	35.63	13.04



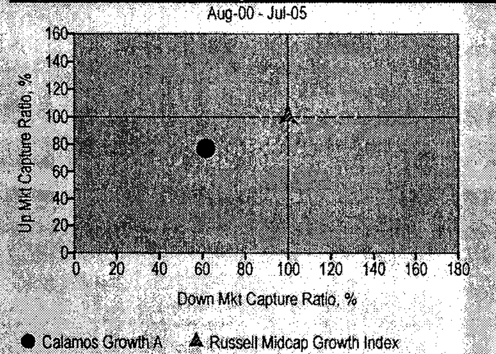
Manager Profiles Calamos Growth A CVGRX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



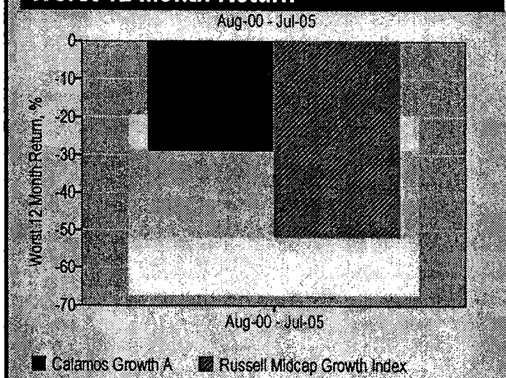
Up\Down Market Capture vs. Universe



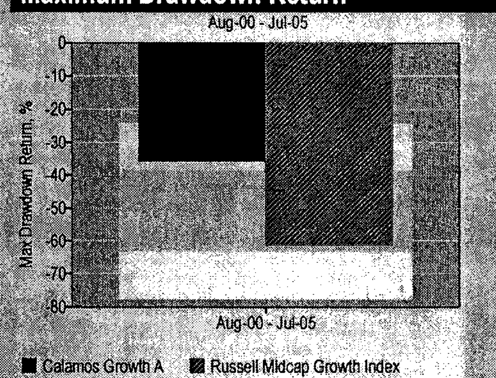
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Calamos Growth A	18.61	18.00	-14.00	75.98	64.79	6.24	0.61	73.29	0.27
Russell Midcap Growth Index	25.98	16.67	-21.73	100.00	100.00	0.00	1.00	100.00	-0.07
Morningstar Midcap Growth Universe Median	22.56	14.11	-17.24	81.29	87.14	-0.82	0.80	87.51	-0.11

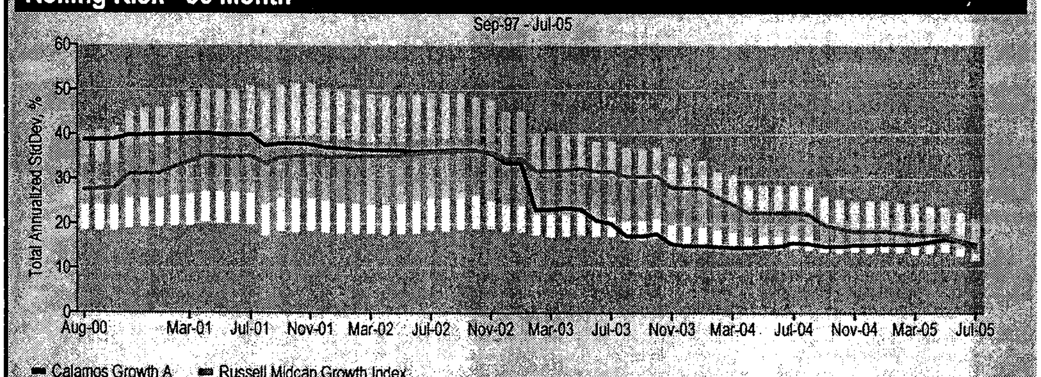
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Artisan Mid Cap Value
ARTQX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

Prospectus Objective	Growth
Morningstar Category	Mid-Cap Value
Net Assets $MM	1961.89
% Assets in Top 10 Holdings	31.43
Total Number of Holdings	49.00
Manager Tenure	4.00
Inception Date	03/28/2001
Expense Ratio	1.39

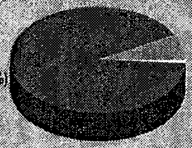
Scott C. Satterwhite, CFA, is a Managing Director of Artisan Partners Limited Partnership. He has co-managed Artisan Mid Cap Value Fund since November 2001 and as managed Artisan Small Cap Value Fund and Artisan Partners' small-cap value strategy since Inception. Prior to joining Artisan Partners in 1997, Mr. Satterwhite was Senior Vice President and Portfolio Manager at Wachovia Corporation. From 1993 to 1997, Mr. Satterwhite was Portfolio Manager of the Biltmore Special Values Fund, in addition to being a Personal Trust Portfolio Manager and Manager of the Georgia Personal Trust Portfolio Group. Mr. Satterwhite earned his BA degree from the University of the South and MBA from Tulane University.

James C. Kieffer, CFA, is a Managing Director of Artisan Partners Limited Partnership. He has co-managed Artisan Mid Cap Value Fund since November 2001 and has been Portfolio Co-Manager of Artisan Small Cap Value Fund since July 2000. Mr. Kieffer was an analyst working with Mr. Satterwhite on Artisan Partners' small-cap value strategy, including the Small Cap Value Fund, from that Fund's inception through June 2000. Prior to joining Artisan Partners, Mr. Kieffer was a Research Analyst from 1996 to 1997 at the investment firm McColl Partners. Mr. Kieffer began his investment career at Wachovia Corporation, working with Mr. Satterwhite from 1989 to 1996, initially as a Personal Trust Portfolio manager and later as a General Equities and Small-Cap Value Research Analyst in the institutional portfolio group. Mr. Kieffer holds a BA degree in Economics from Emory University.

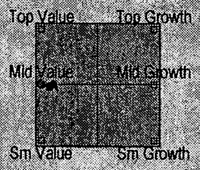
Objectives and Strategies

Artisan Mid Cap Value Fund pursues long-term capital growth through a diversified portfolio of medium-sized company stocks that are undervalued and provide a controlled level of risk. The Fund is typically benchmarked against the Russell Midcap® Value Index over a full market cycle. **Strategy & Process:** Artisan Mid controlled level of risk. The Fund is typically benchmarked against the Russell Midcap® Value Index over a full market cycle. **Strategy & Process:** Artisan Mid Cap Value Fund seeks to identify significantly undervalued companies with market capitalizations between $1.5 billion and $10 billion. Through its extensive fundamental analysis, the Fund's investment team often finds investment opportunities in the following situations: **Business transitions** - companies in the process of change; **Turnarounds** - both industry and company-specific; **Inefficiently valued assets** - companies with "hidden" assets; **Earnings shortfalls** - companies whose earnings have disappointed. From the universe of undervalued companies, the investment team looks for those firms that provide a controlled level of risk. Specifically the investment team is seeking: **Financial strength** - low debt and positive cash flow; **Favorable economics** - good returns on capital and free cash flow; The Fund typically holds approximately 40 to 60 holdings broadly diversified across sectors and industries. Individual holdings will typically not exceed 5% of the Fund's assets (at market value at the time of purchase).

Asset Allocation



Style Allocation



● Artisan Mid Cap Value ▲ Russell Midcap Value Index

Sector Allocation

Software	6.51%
Hardware	2.15%
Media	0.00%
Telecommunications	0.00%
Healthcare	0.00%
Consumer Services	9.27%
Business Services	15.35%
Financial Services	23.83%
Consumer Goods	18.06%
Industrial Materials	1.55%
Energy	21.36%
Utilities	1.92%

Top Ten Holdings as of 06/30/2005

Student Loan	4.70%
Pioneer Natural Resources	3.46%
Furniture Brands International	3.13%
Alleghany	3.04%
XTO Energy	2.98%
Nuveen Investments	2.97%
Noble Energy	2.90%
EOG Resources	2.81%
White Mountains Insurance	2.77%
Avnet	2.67%

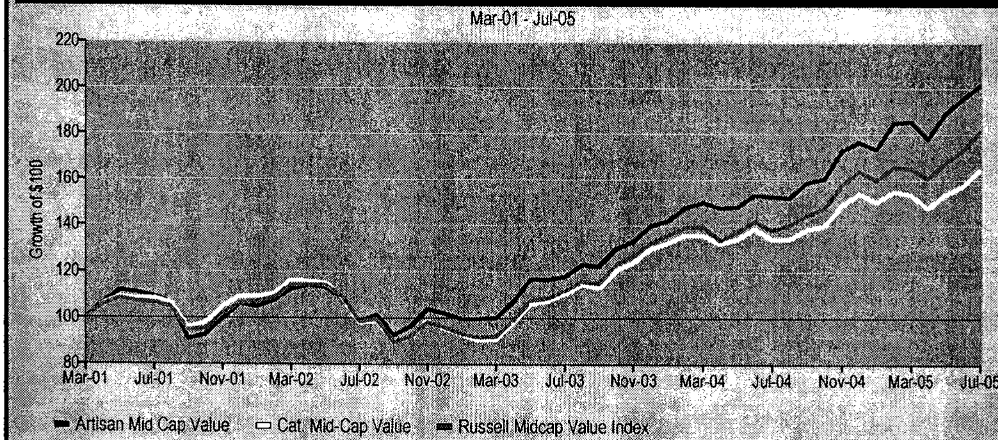
Manager Profiles
Artisan Mid Cap Value
ARTQX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

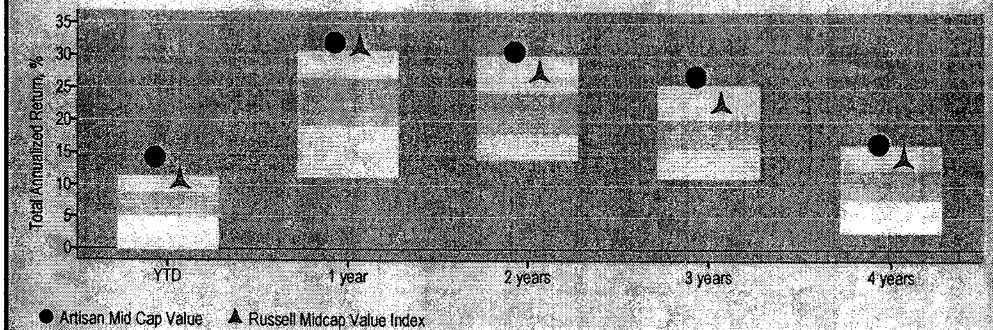
Performance

Growth of Assets



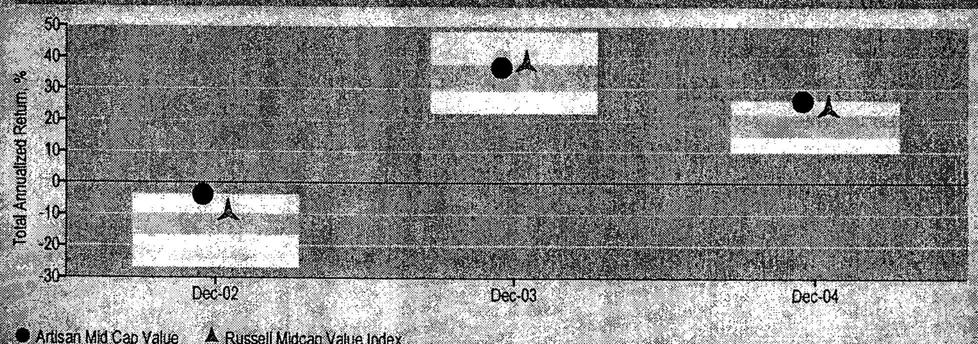
Trailing Returns

	1 year	2 years	3 years	4 years	5 years
Artisan Mid Cap Value	16.52	26.88	30.68	32.00	14.22
Russell Midcap Value Index	14.14	22.51	27.23	31.15	10.54
Morningstar Midcap Value Universe Median	10.54	18.89	21.89	22.89	7.97



Calendar Year Returns

	2002	2003	2004
Artisan Mid Cap Value	-3.87	36.83	26.20
Russell Midcap Value Index	-9.64	38.07	23.71
Morningstar Midcap Value Universe Median	-12.57	34.53	18.21



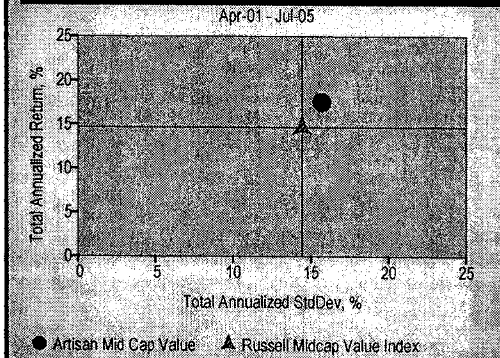
Manager Profiles
Artisan Mid Cap Value
ARTQX

A personal investment proposal for
(Client Name)
(Date)

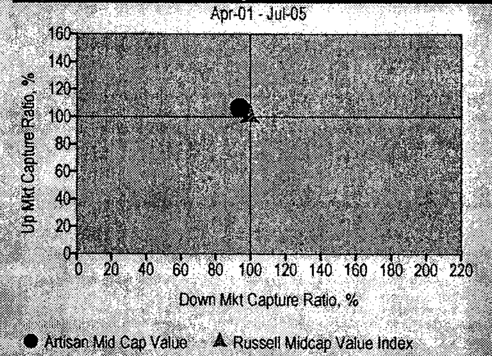
prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



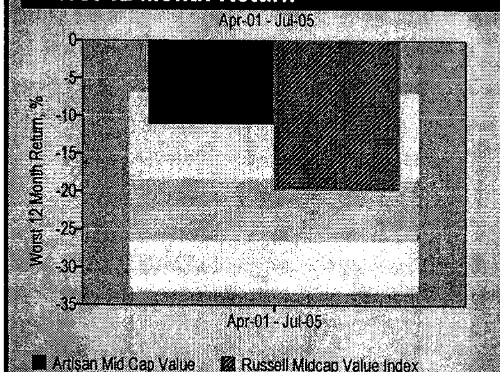
Up\Down Market Capture vs. Universe



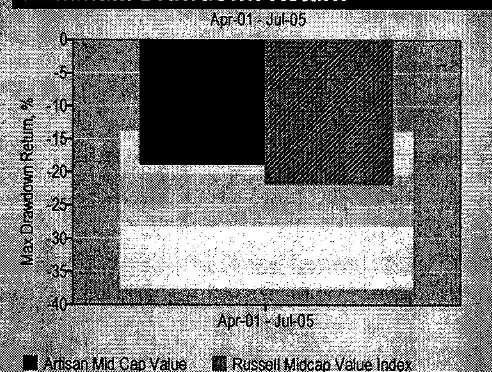
Risk\Return Statistics

Apr-01 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Artisan Mid Cap Value	15.70	9.07	-14.41	105.63	93.94	2.40	1.02	88.40	0.99
Russell Midcap Value Index	14.44	8.80	-10.10	100.00	100.00	0.00	1.00	100.00	0.89
Morningstar Midcap Value Universe Median	15.29	9.37	-11.28	93.33	105.95	-1.83	0.99	87.11	0.69

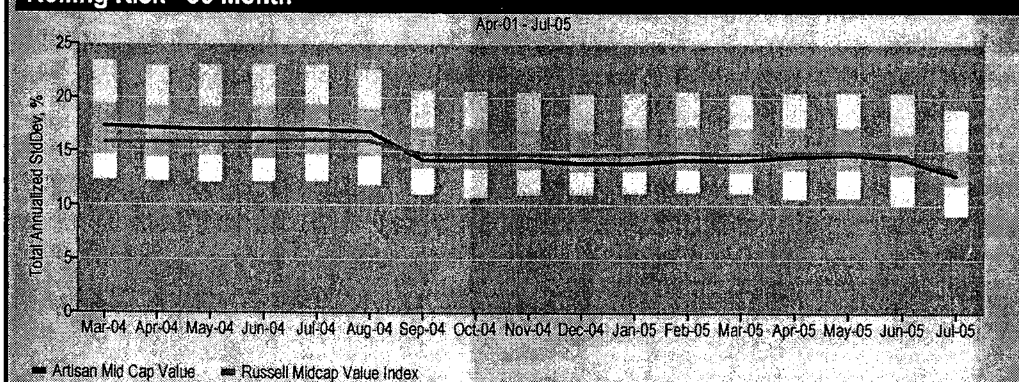
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles Touchstone Emerging Growth A TEGAX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Fund Information

Prospectus Objective	Growth
Morningstar Category	Mid-Cap Growth
Net Assets $MM	599.86
% Assets in Top 10 Holdings	17.66
Total Number of Holdings	107.00
Manager Tenure	6.00
Inception Date	10/03/1994
Expense Ratio	1.50

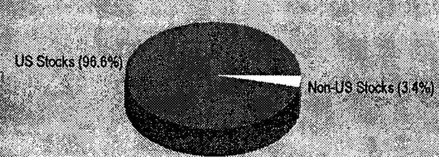
Touchstone Emerging Growth Fund is a U. S. mid-cap blend fund. This fund:

- Utilizes a dual-manager approach employing both a growth style and a value style of investing.
- Invests in companies with consistent or accelerating earnings growth.
- Purchases stocks that are inefficiently priced due to transitional issues.

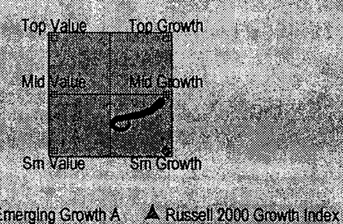
Objectives and Strategies

The fund invests primarily (at least 65% of its assets) in emerging growth companies. Emerging growth companies can include companies that have earnings that the portfolio managers believe may grow faster than the U.S. economy in general due to new products, management changes at the company or economic shocks such as high inflation or sudden increases or decreases in interest rates. Emerging growth companies can also include companies that the portfolio managers believe are undervalued, including companies with unrecognized asset values or undervalued growth, and companies undergoing a turnaround. The Fund will invest primarily in common stocks of mid cap emerging growth companies. A mid cap company has a market capitalization between $1.5 and $10 billion. The Fund may also invest in companies in the technology sector. The Fund is sub-advised by two separate management teams, a growth style team and a value style team, that use different style methodologies when evaluating which stocks to buy or sell in their portfolio. In selecting securities for the Fund, both portfolio management teams evaluate companies by using fundamental analysis of the company's operations and product development and consideration of the company's industry category. The growth style management team will sell a security if the predetermined sell price is achieved, if it is concluded that the original case for investment is no longer valid or if more attractive alternative investments are available. The value style management team will sell a security if it is believed to be fairly valued, if the Fund's holding in a security becomes larger than a predetermined percentage of the Fund's portfolio or if the goals for a security cannot be achieved according to its evaluation process.

Asset Allocation



Style Allocation



Sector Allocation

Software	4.87%
Hardware	20.38%
Media	1.44%
Telecommunications	0.00%
Healthcare	17.98%
Consumer Services	14.09%
Business Services	8.37%
Financial Services	9.45%
Consumer Goods	2.73%
Industrial Materials	9.71%
Energy	10.97%
Utilities	0.00%

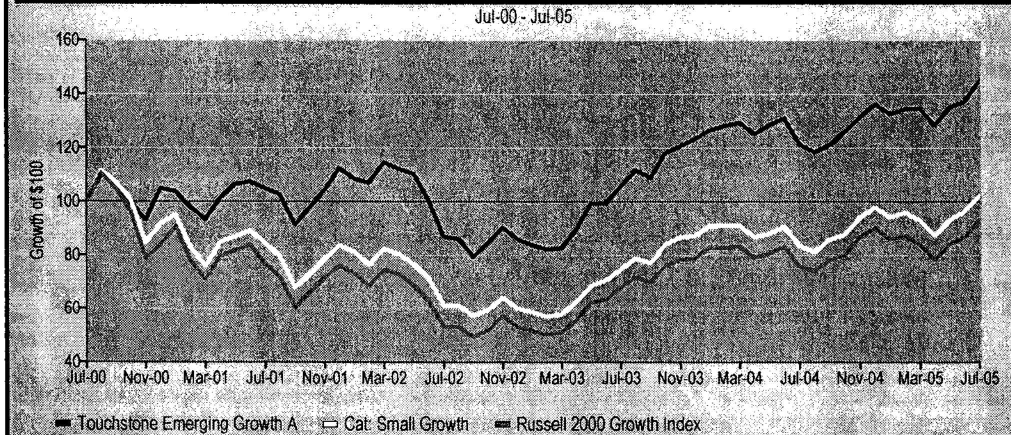
Top Ten Holdings as of 07/31/2005

National Semiconductor	2.56%
Thermo Electron	2.11%
Celgene	1.95%
Omnicare	1.83%
Zions Bancorporation	1.70%
Amerada Hess	1.58%
Ametek	1.53%
Vishay Intertechnology	1.49%
May Department Stores	1.47%
Consol Energy	1.44%

Manager Profiles Touchstone Emerging Growth A TEGAX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

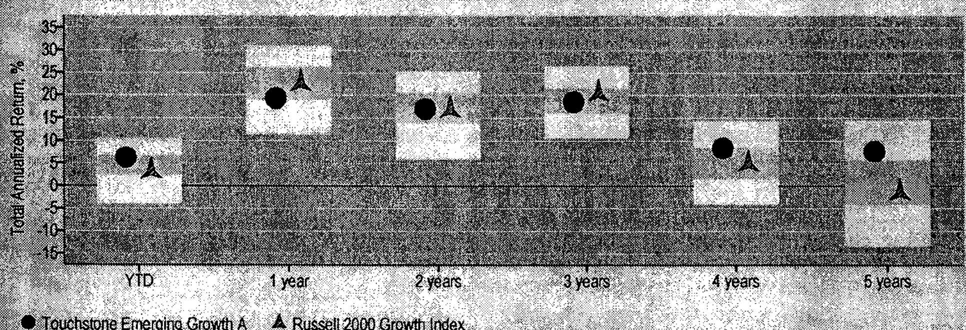
Performance

Growth of Assets



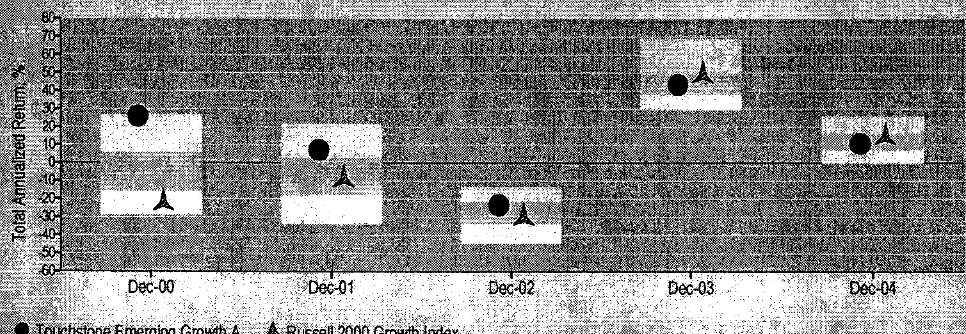
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Touchstone Emerging Growth A	7.68	8.37	18.56	17.01	19.34	6.26
Russell 2000 Growth Index	-1.46	4.92	20.42	16.82	22.58	3.16
Morningstar SmallCap Growth Universe Median	0.70	5.32	19.14	17.46	22.76	4.86



Calendar Year Returns

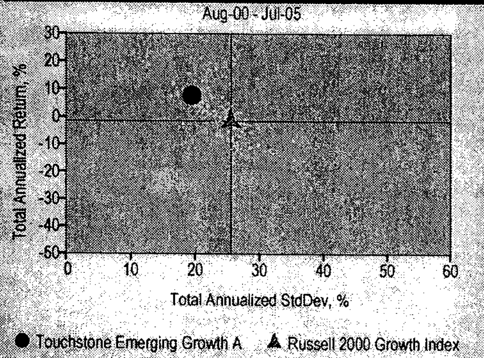
	2000	2001	2002	2003	2004
Touchstone Emerging Growth A	25.92	7.06	-23.48	43.35	10.60
Russell 2000 Growth Index	-22.43	-9.23	-30.26	48.54	14.31
Morningstar SmallCap Growth Universe Median	-5.73	-9.75	-27.16	44.39	12.81



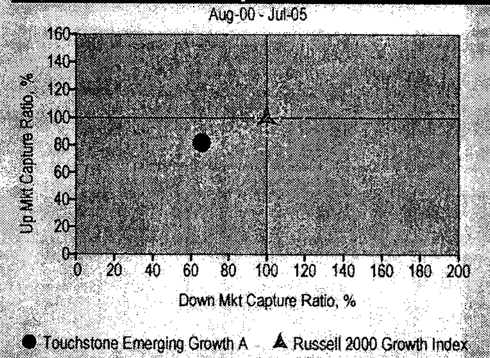
Manager Profiles Touchstone Emerging Growth A TEGAX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



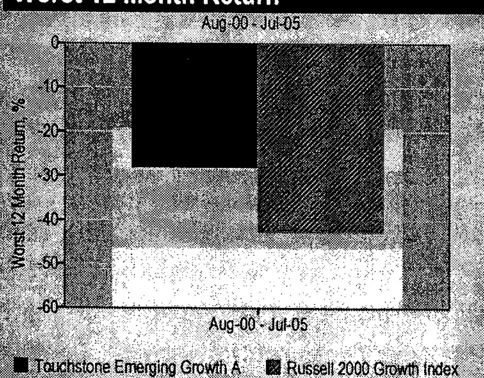
Up\Down Market Capture vs. Universe



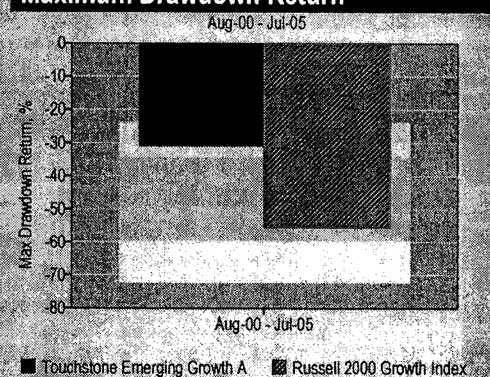
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Touchstone Emerging Growth A	19.51	12.81	-13.60	81.72	65.88	7.29	0.70	83.65	0.35
Russell 2000 Growth Index	25.57	12.24	-18.16	100.00	100.00	0.00	1.00	100.00	-0.02
Morningstar SmallCap Growth Universe Median	23.40	13.79	-16.83	86.00	87.95	1.63	0.86	89.74	0.05

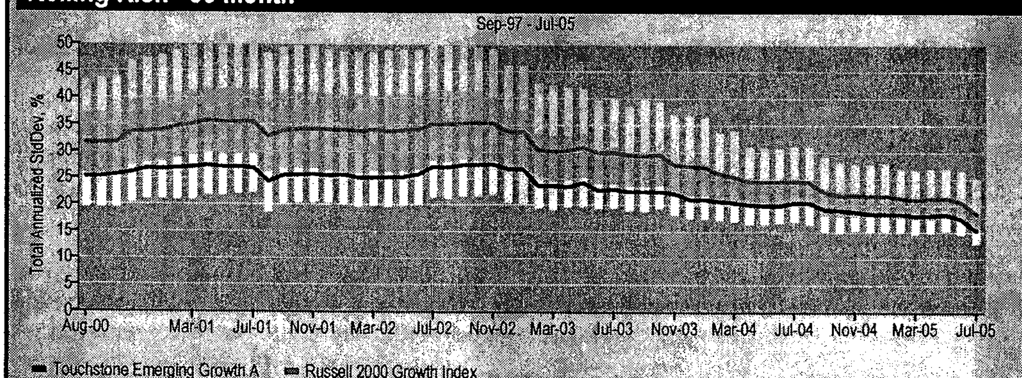
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Marsico Growth
MGRIX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

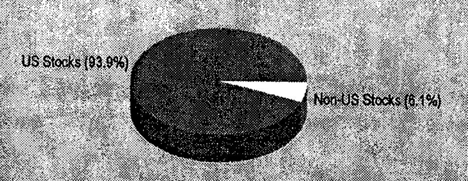
Prospectus Objective	Growth
Morningstar Category	Large Growth
Net Assets $MM	2089.46
% Assets in Top 10 Holdings	43.15
Total Number of Holdings	51.00
Manager Tenure	8.00
Inception Date	12/31/1997
Expense Ratio	1.30

The Marsico Growth Fund is managed by Thomas F. Marsico, Officer of Marsico Capital Management, LLC. Tom Marsico has over 20 years of experience as a securities analyst and portfolio manager. He managed the Janus Twenty Fund for nearly 10 years, and managed the Janus Growth and Income Fund from its inception in 1991 until August 1997.

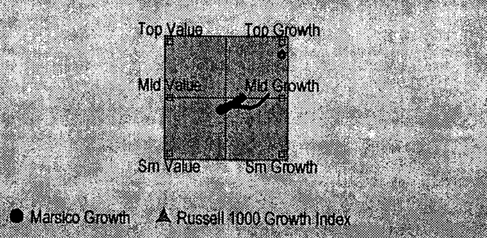
Objectives and Strategies

By exploring investment themes from every angle, they gain insights about whether to buy and when to sell. Marsico uses a 360-degree approach to discover investment opportunities for each fund through a strategic process that blends relentless research with concentrated fundamentals. Understanding many aspects of a company's status gives them a three-dimensional view of its earnings and growth prospects. Their 360-degree approach helps them to identify more attributes that others might not examine. Assessing the macroeconomic environment, for example, allows Marsico to recognize the sustainability of trends and the strength of a company's specific market expertise and/or dominance within an industry as a whole. They also consider a company's solid fundamentals, including good management, a strong balance sheet, and the ability to generate free cash flow. As part of their fundamental research, they may visit various levels of a company's management, as well as with its customers, suppliers and distributors. At this stage, they also typically prepare detailed earnings and cash flow models of companies. Each model is customized to follow a particular company and is intended to replicate and describe a company's past, present, and possible future performance. The proprietary models include quantitative information and detailed narratives that reflect updated interpretations of corporate data. In addition, Marsico meticulously evaluates the competitive landscape.

Asset Allocation



Style Allocation



Sector Allocation

Software	1.16%
Hardware	5.83%
Media	0.00%
Telecommunications	0.00%
Healthcare	30.88%
Consumer Services	21.91%
Business Services	6.96%
Financial Services	13.17%
Consumer Goods	6.82%
Industrial Materials	11.80%
Energy	0.00%
Utilities	1.47%

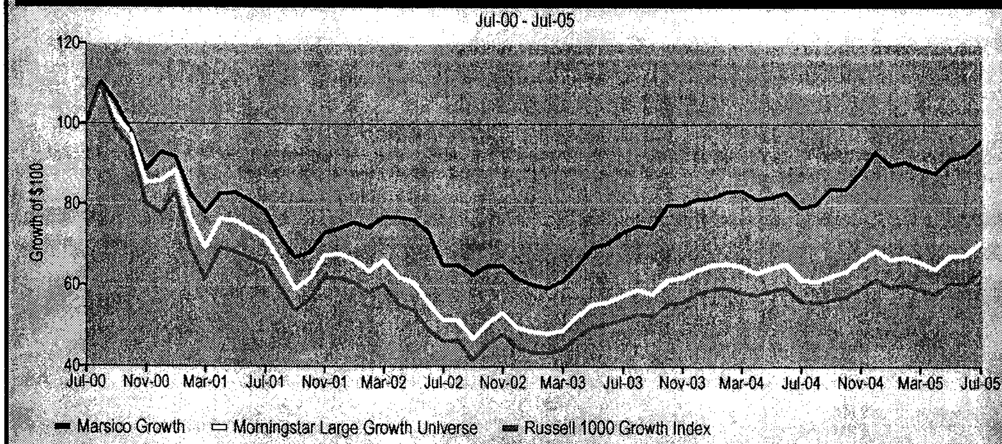
Top Ten Holdings as of 05/31/2005

UnitedHealth Group	7.91%
Genentech	7.49%
General Electric	4.48%
Google	3.61%
Procter & Gamble	3.60%
Lowe's Companies	3.58%
FedEx	3.35%
Countrywide Financial	3.31%
Zimmer Holdings	2.94%
Johnson & Johnson	2.88%

Manager Profiles Marsico Growth MGRIX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

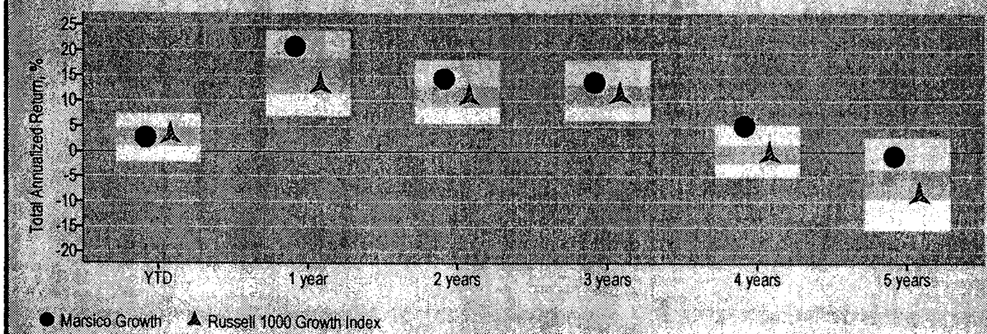
Performance

Growth of Assets



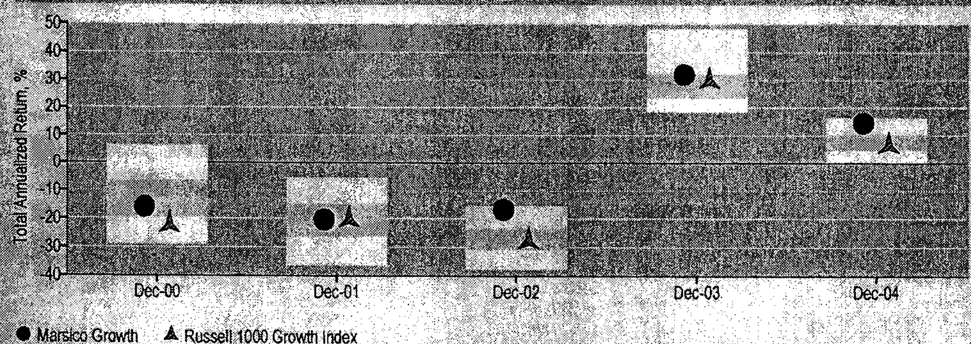
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Marsico Growth	-0.91	5.09	13.76	14.39	20.76	2.77
Russell 1000 Growth Index	-8.72	-0.61	11.05	10.75	13.04	3.08
Morningstar Large Growth Universe Median	-6.58	-0.47	10.74	10.89	14.35	2.85



Calendar Year Returns

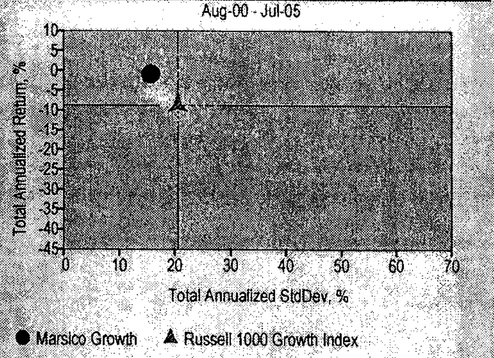
	2000	2001	2002	2003	2004
Marsico Growth	-15.85	-20.33	-16.79	31.97	14.38
Russell 1000 Growth Index	-22.43	-20.42	-27.88	29.75	6.30
Morningstar Large Growth Universe Median	-12.53	-19.76	-27.00	27.68	7.67



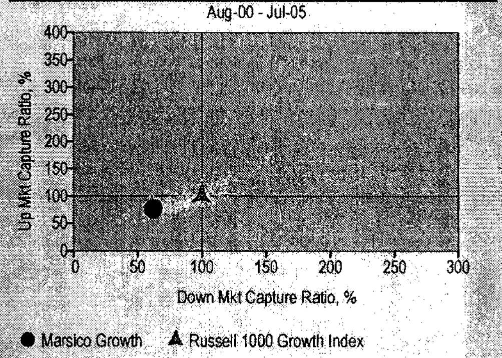
Manager Profiles Marsico Growth MGRIX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



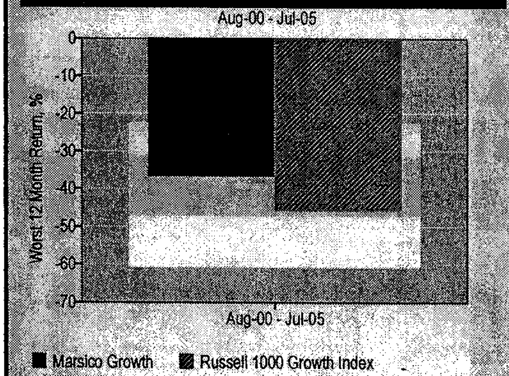
Up\Down Market Capture vs. Universe



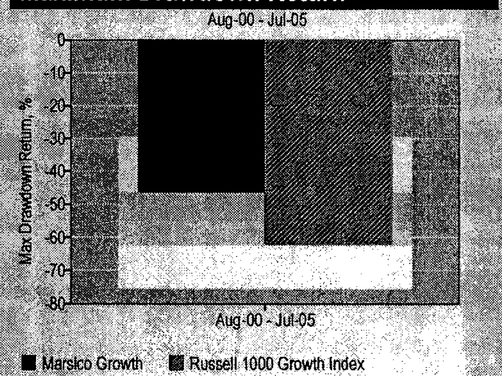
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Marsico Growth	16.74	10.30	-11.30	76.03	62.62	3.89	0.64	70.38	-0.13
Russell 1000 Growth Index	20.66	12.65	-16.98	100.00	100.00	0.00	1.00	100.00	-0.45
Morningstar Large Growth Universe Median	18.70	10.87	-13.51	89.79	87.71	0.66	0.85	88.92	-0.39

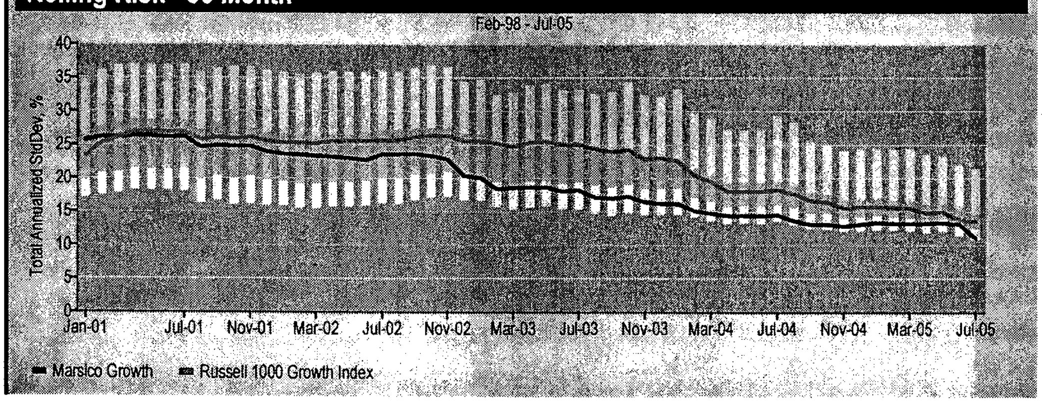
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles Keeley Small Cap Value KSCVX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Fund Information

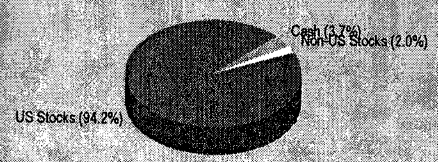
Prospectus Objective	Small Company
Morningstar Category	Small Blend
Net Assets $MM	675.97
% Assets in Top 10 Holdings	10.46
Total Number of Holdings	148.00
Manager Tenure	12.00
Inception Date	10/01/1993
Expense Ratio	1.64

Keeley Asset Management Corp. ("KAMCO") is a registered investment adviser established in 1982 by John L. Keeley, Jr. KAMCO offers investment management services to institutions, high net-worth individuals, hedge funds, and corporate retirement accounts. Its Corporate Restructuring Strategy, first employed in January 1990, is the basis from which the Fund focuses on the purchase of stocks undergoing corporate change.

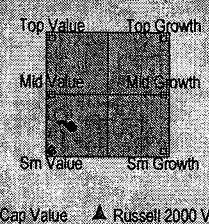
Objectives and Strategies

Under normal market conditions, the Fund will invest at least 80% of its net assets plus the amount of any borrowings for investment purposes in common stocks and other equity type securities (including preferred stock, convertible debt securities and warrants) of small cap companies, measured at the time of each investment. If we change that policy, we will give our shareholders at least 60 days notice of the change. While many mutual funds look for undervalued stocks, the Fund takes a unique approach: *we emphasize on companies going through major changes, including: corporate spin-offs (a tax-free distribution of a parent company's division to shareholders); financial restructuring, including acquisitions, recapitalizations and companies emerging from bankruptcy; companies selling at or below actual or perceived book value; savings and loan and insurance conversions.* We don't concentrate on any sector or industry. Current dividend or interest income is not a factor when choosing securities. Each stock is judged on its potential for above-average capital appreciation, using a value approach that emphasizes: equities with positive cash flow; low market capitalization-to-revenue ratio; desirable EBITDA (earnings before interest, taxes, depreciation and amortization); motivated management; little attention from Wall Street. Research sources include company documents, subscription research services, select broker/dealers and direct company contact. It is our initial intention to typically hold securities for more than two years to allow the corporate restructuring process to yield results. But we may sell securities when a more attractive opportunity emerges, when a company becomes over-weighted in the portfolio, or when operating difficulties or other circumstances make selling desirable. In times of adverse equity markets, we may take temporary defensive positions in U.S. Treasury bills and commercial paper of major U.S. corporations. This could reduce the benefit from an upswing in the market.

Asset Allocation



Style Allocation



Sector Allocation

Software	0.00%
Hardware	0.94%
Media	0.73%
Telecommunications	0.00%
Healthcare	1.25%
Consumer Services	13.77%
Business Services	8.82%
Financial Services	14.34%
Consumer Goods	5.79%
Industrial Materials	30.90%
Energy	19.42%
Utilities	4.04%

Top Ten Holdings as of 06/30/2005

Danielson Holding	1.40%
Texas Industries	1.22%
Foster Wheeler	1.06%
Orient-Express Hotels A	1.02%
Quicksilver Resources	0.99%
Conseco	0.99%
Aztar	0.95%
PHH	0.95%
Amerco	0.94%
Gaylord Entertainment	0.94%

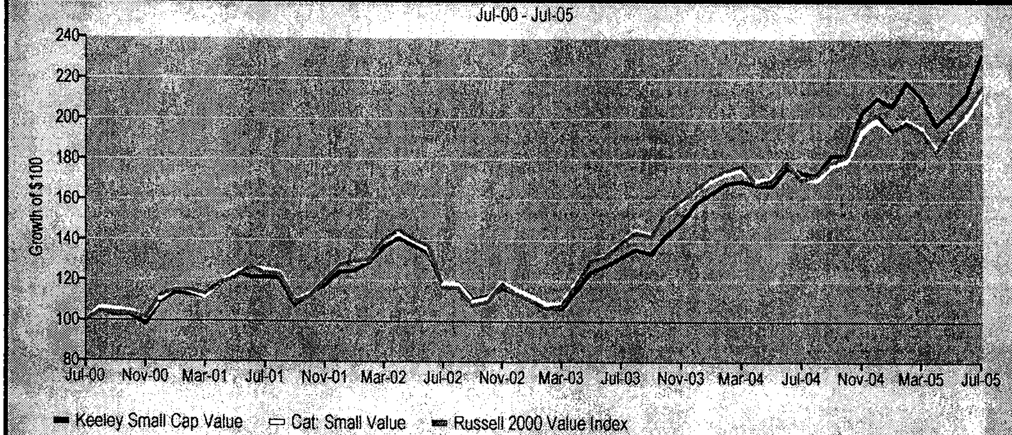
Manager Profiles
Keeley Small Cap Value
KSCVX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

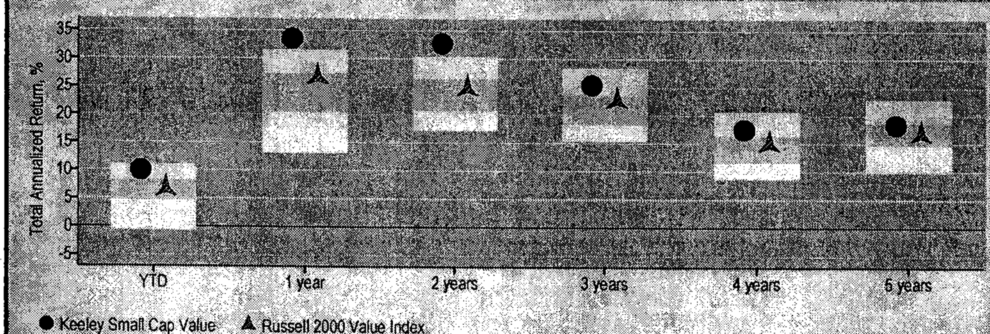
Performance

Growth of Assets



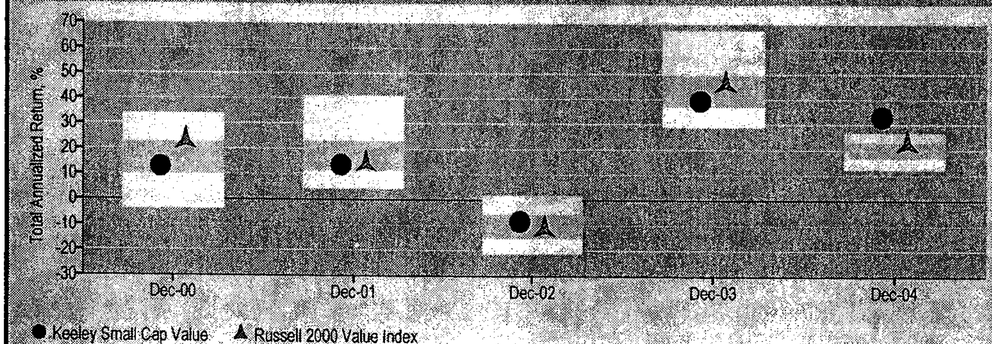
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Keeley Small Cap Value	18.30	17.46	25.38	32.73	33.55	9.99
Russell 2000 Value Index	16.64	14.93	22.68	24.76	26.72	6.64
Morningstar SmallCap Value Universe Median	16.39	14.06	21.50	24.01	25.35	7.42



Calendar Year Returns

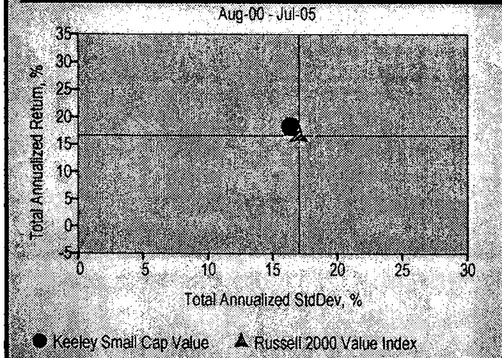
	2000	2001	2002	2003	2004
Keeley Small Cap Value	12.87	13.65	-8.47	39.31	32.94
Russell 2000 Value Index	22.83	14.02	-11.42	46.03	22.25
Morningstar SmallCap Value Universe Median	16.75	17.39	-9.66	41.61	21.01



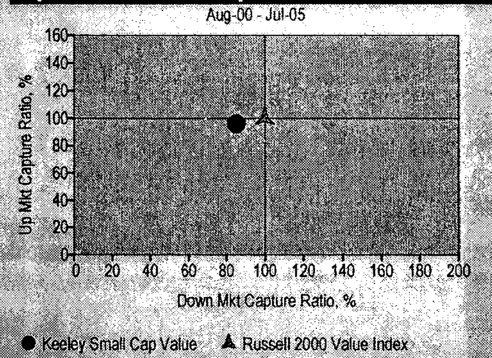
Manager Profiles Keeley Small Cap Value KSCVX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



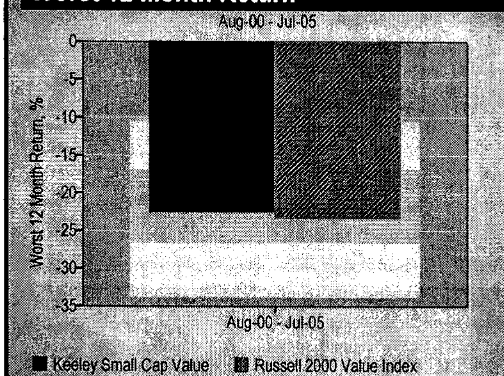
Up\Down Market Capture vs. Universe



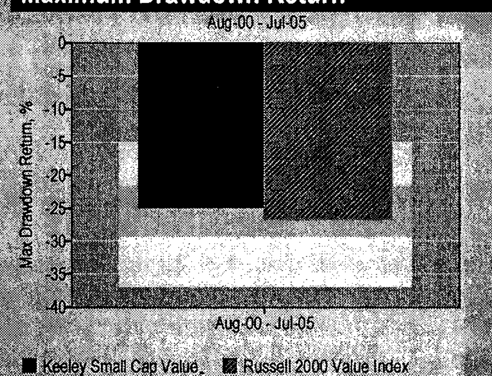
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Keeley Small Cap Value	16.40	11.60	-12.19	95.78	85.33	3.07	0.88	83.30	0.96
Russell 2000 Value Index	17.04	10.74	-14.86	100.00	100.00	0.00	1.00	100.00	0.85
Morningstar SmallCap Value Universe Median	16.96	11.07	-13.16	95.22	93.30	0.93	0.93	88.73	0.87

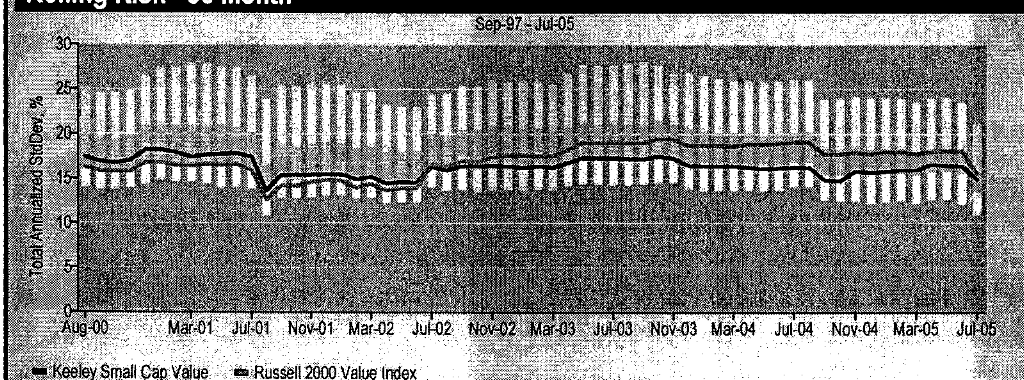
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

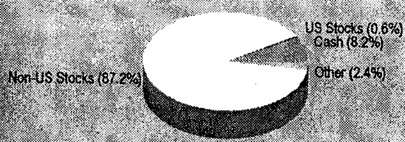
Prospectus Objective	Foreign Stock
Morningstar Category	Foreign Large Blend
Net Assets $MM	4187.78
% Assets in Top 10 Holdings	14.82
Total Number of Holdings	381.00
Manager Tenure	21.00
Inception Date	03/15/2001
Expense Ratio	0.89

This fund keeps things simple. It buys the biggest and best foreign companies and holds on to them. At more than $45 billion in assets, this offering boasts many experienced managers, most of whom have been with the company for more than a decade. Each manager runs his or her portion of assets independently of the others. A portion of the portfolio (less than 25% of assets) is run by the firm's analyst staff.

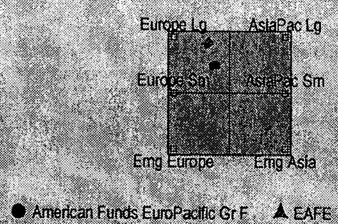
Objectives and Strategies

The fund's investment objective is to provide you with long-term growth of capital. Normally, the fund will invest at least 80% of its assets in securities of issuers located in Europe and the Pacific Basin. This policy is subject to change only upon 60 days' notice to shareholders. Various factors will be considered when determining whether a country is part of Europe, including whether a country is part of the MSCI European indexes. A country will be considered part of the Pacific Basin if any of its borders touch the Pacific Ocean. The prices of securities held by the fund may decline in response to certain events, including those directly involving the companies whose securities are owned by the fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate fluctuations. The growth-oriented, equity-type securities generally purchased by the fund may involve large price swings and potential for loss. Investments in securities issued by entities based outside the United States may also be affected by currency controls; different accounting, auditing, financial reporting and legal standards and practices in some countries; expropriation or confiscatory taxation; greater market volatility; differing securities market structures; higher transaction costs; and various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends. These risks may be heightened in connection with investments in developing countries. The fund may also hold cash, money market instruments and fixed income securities. The size of the fund's cash and fixed income position will vary and will depend on various factors, including market conditions and purchases and redemptions of fund shares. A larger cash position could detract from the achievement of the fund's objective in a period of rising market prices; conversely, it would reduce the fund's magnitude of loss in the event of falling market prices and provide liquidity to make additional investments or to meet redemptions. The fund relies on the professional judgment of its investment adviser to make decisions about the fund's portfolio investments. The basic investment philosophy of the investment adviser is to seek to invest in attractively valued companies that, in its opinion, represent good long-term investment opportunities. The investment adviser believes an important way to accomplish this is through fundamental analysis, including meeting with company executives and employees, suppliers, customers and competitors. Securities may be sold when the investment adviser believes they no longer represent attractive investment opportunities.

Asset Allocation



Style Allocation



Sector Allocation

Software	0.26%
Hardware	6.42%
Media	1.99%
Telecommunications	16.54%
Healthcare	8.83%
Consumer Services	5.48%
Business Services	1.33%
Financial Services	22.22%
Consumer Goods	15.82%
Industrial Materials	9.92%
Energy	8.41%
Utilities	2.77%

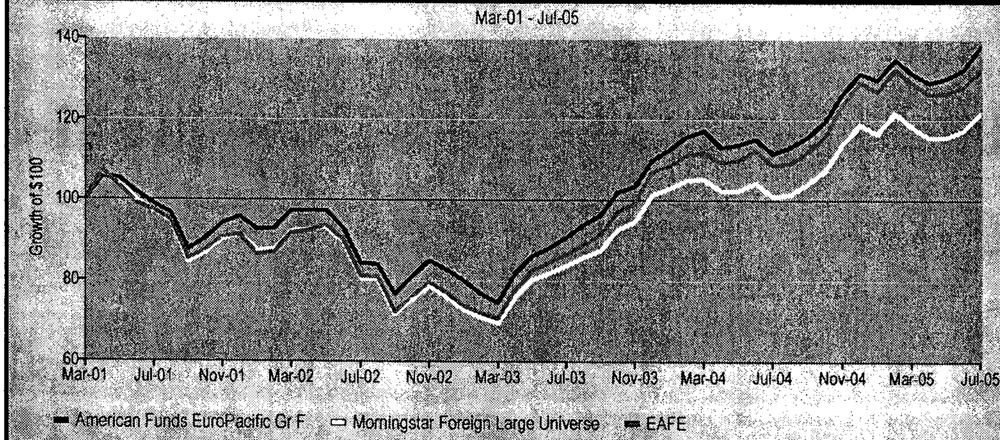
Top Ten Holdings as of 03/31/2005

Sanofi-Synthelabo	2.34%
Vodafone Grp	2.27%
Telefonica	1.52%
France Telecom	1.43%
Taiwan Semiconductor Mfg.	1.34%
ING Groep	1.25%
Koninklijke Ahold	1.22%
Roche Holding	1.21%
Novo-Nordisk A S	1.13%
AstraZeneca	1.12%

Manager Profiles American Funds EuroPacific Gr F AEGFX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

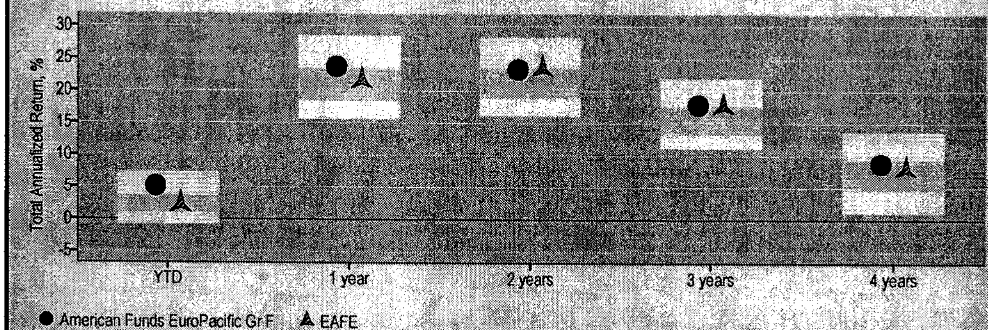
Performance

Growth of Assets



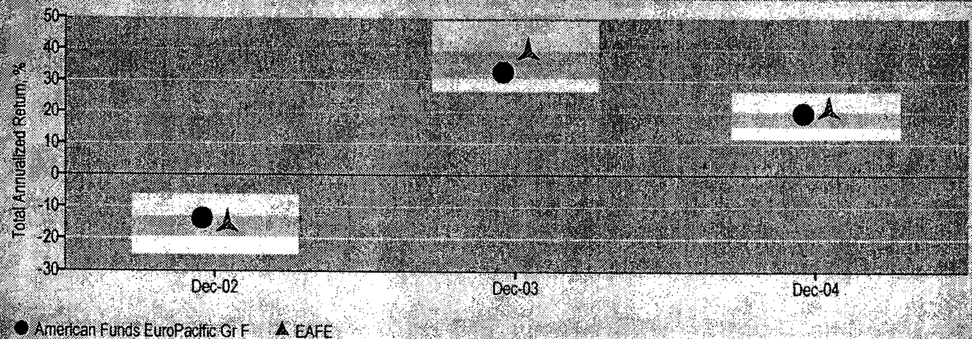
Trailing Returns

	1 year	2 years	3 years	4 years	5 years
American Funds EuroPacific Gr F	8.69	17.86	23.39	23.79	5.12
EAFE	7.94	17.66	23.51	21.56	2.20
Morningstar Foreign Large Universe Median	6.63	15.67	20.99	20.71	2.24



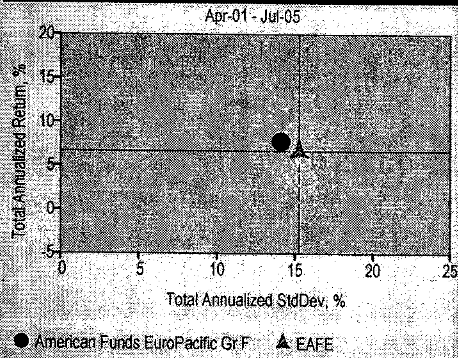
Calendar Year Returns

	2002	2003	2004
American Funds EuroPacific Gr F	-13.65	32.84	19.63
EAFE	-15.66	39.17	20.70
Morningstar Foreign Large Universe Median	-16.27	35.26	18.18

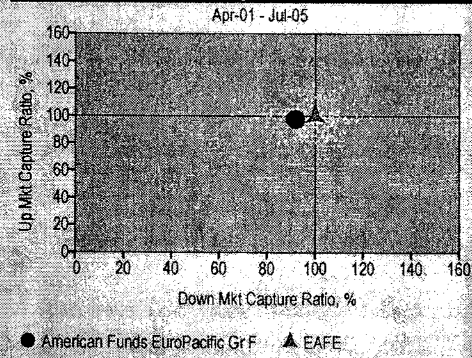


Risk & Risk-Adjusted Return

Risk\Return vs. Universe



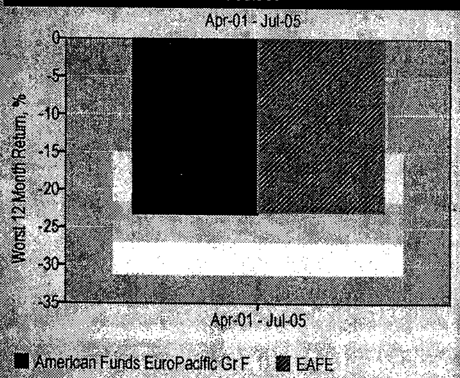
Up\Down Market Capture vs. Universe



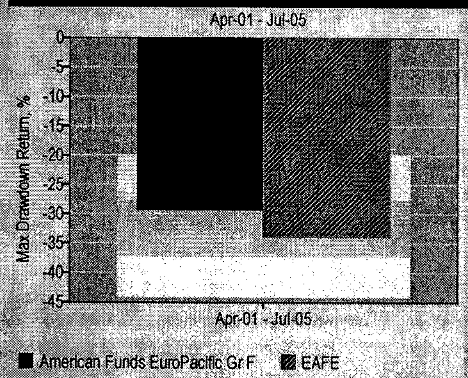
Risk\Return Statistics

Apr-01 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R Squared (%)	Sharpe Ratio
American Funds EuroPacific Gr F	14.12	9.65	-9.50	97.41	91.85	1.43	0.90	95.25	0.47
EAFE	15.27	9.92	-10.71	100.00	100.00	0.00	1.00	100.00	0.37
Morningstar Foreign Large Universe Median	15.38	9.51	-11.49	97.01	100.46	-0.99	0.98	94.43	0.30

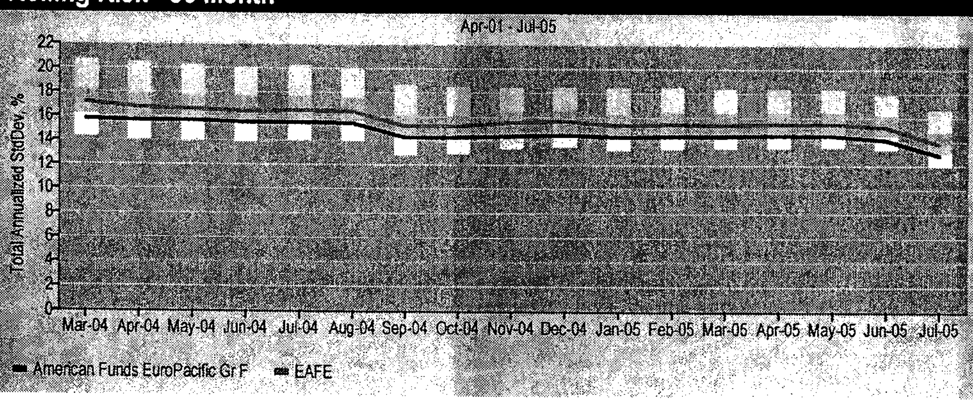
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Permanent Portfolio
PRPFX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

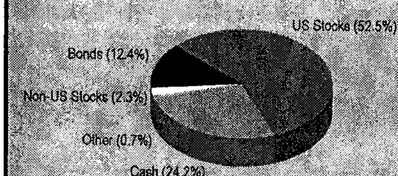
Prospectus Objective	Multi-Asset Global
Morningstar Category	Conservative Allocation
Net Assets $MM	268.96
% Assets in Top 10 Holdings	45.12
Total Number of Holdings	99.00
Manager Tenure	15.00
Inception Date	12/01/1982
Expense Ratio	1.38

The Fund was incorporated under the laws of Maryland on December 14, 1981, under the name "Permanent Portfolio Fund, Inc." and changed its name to "Permanent Portfolio Family of Funds, Inc." on August 10, 1988. The Fund was originally organized with a single Portfolio which commenced operations as an investment company on October 15, 1982. That Portfolio continues, with the same investment policy, and is now called the Fund's "Permanent Portfolio." The Fund's Treasury Bill Portfolio commenced operations on May 26, 1987, the Fund's Aggressive Growth Portfolio commenced operations on January 2, 1990 and the Fund's Versatile Bond Portfolio commenced operations on September 27, 1991. The Fund may offer additional Portfolios from time to time.

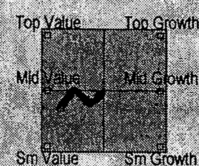
Objectives and Strategies

The objective of the Permanent Portfolio is to preserve and increase the "purchasing power" value of its shares over the long term. This goal would require the price of shares in the Permanent Portfolio to rise at a rate equal to or greater than the rate of general price inflation (or, in the event of a deflation in the economy, it would require the price of shares in the Permanent Portfolio to resist the decline in the general level of prices). If the Permanent Portfolio succeeds in meeting its objective, the amount of goods and services that can be purchased with an amount of money equivalent to a share in the Permanent Portfolio will hold steady (over the long term), or rise, and would do so regardless of the course of inflation. Investors should note that even if the Permanent Portfolio does achieve its objective over the long term, it may suffer substantial short-term losses from time to time, since investment prices generally respond to changes in the pattern of inflation with lags and delays that are impossible to foresee. The investment policy of the Permanent Portfolio reflects the opinion of its investment adviser that inflation rates and other economic events cannot be forecast with a high degree of reliability and that only investors who are willing to embrace a high degree of risk should act on such forecasts. An investment vehicle such as the Permanent Portfolio, whose goals include the preservation of purchasing power, should not depend on forecasts. Instead, it should acknowledge a broad range of economic possibilities and, in order to preserve purchasing power over the long term, should incorporate investments for each of them. For a further discussion of the investment strategy of the Permanent Portfolio, see "Objectives and Policies – Investment Strategy – Permanent Portfolio" in the Fund's SAI. In pursuit of its objective of preserving and increasing the purchasing power value of its shares over the long term, the Permanent Portfolio, as its fundamental investment policy, invests a fixed "Target Percentage" of its net assets in each of the following categories:

Asset Allocation



Style Allocation



● Permanent Portfolio ▲ Stanford Permanent Portfolio Blended Index

Sector Allocation

Software	3.52%
Hardware	5.88%
Media	2.88%
Telecommunications	0.00%
Healthcare	3.16%
Consumer Services	4.13%
Business Services	3.36%
Financial Services	35.23%
Consumer Goods	2.05%
Industrial Materials	19.52%
Energy	20.27%
Utilities	0.00%

Top Ten Holdings as of 06/30/2005

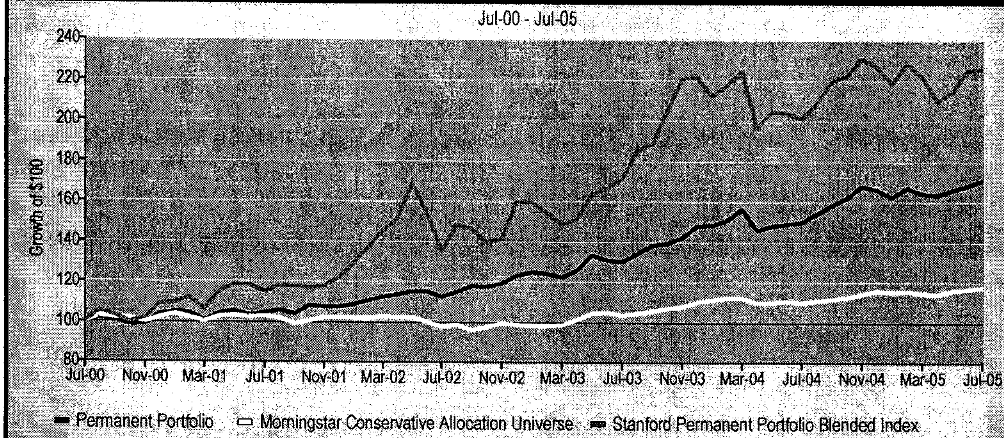
Gold/Us Golden Eagles	9.57%
U S Treas Bd Stripped Prin Pmt	9.24%
Gold Comex	6.78%
Gold Canadian Maple Leaf	4.35%
Silver Comex	4.28%
Symantec (Wts)	2.97%
Switzerland (Government Of) 4.5%	2.22%
Switzerland (Government Of) 4.25%	2.13%
Switzerland (Government Of) 3.5%	1.88%
Switzerland (Government Of) 3.25%	1.70%

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

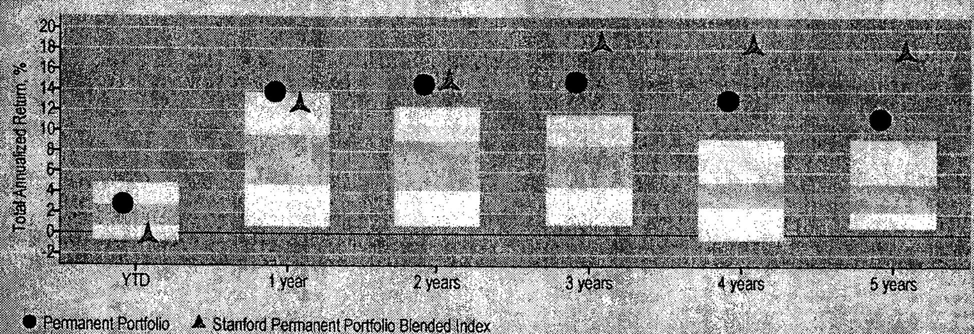
Performance

Growth of Assets



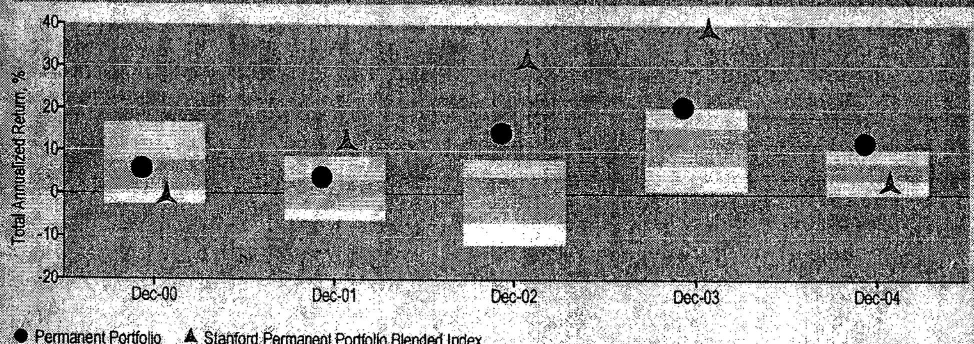
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Permanent Portfolio	11.30	13.08	14.89	14.57	13.82	2.79
Stanford Permanent Portfolio Blended Index	17.69	18.30	18.56	14.75	12.49	-0.40
Morningstar Foreign Large Universe Median	3.40	3.72	6.65	7.15	7.63	1.83



Calendar Year Returns

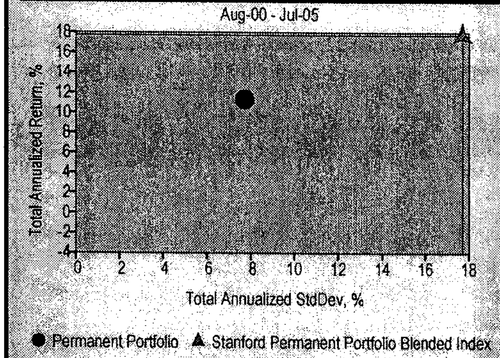
	2000	2001	2002	2003	2004
Permanent Portfolio	5.88	3.81	14.36	20.45	12.04
Stanford Permanent Portfolio Blended Index	-0.83	11.91	31.10	38.59	2.33
Morningstar Foreign Large Universe Median	4.92	0.91	3.13	10.81	5.91



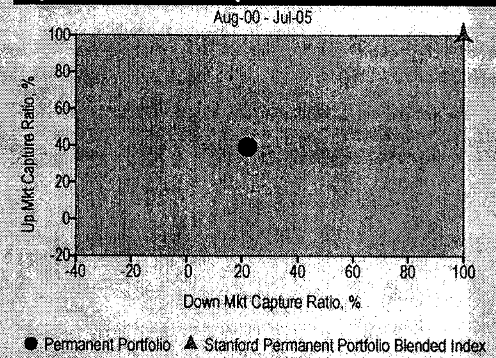
Manager Profiles Permanent Portfolio PRPFX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



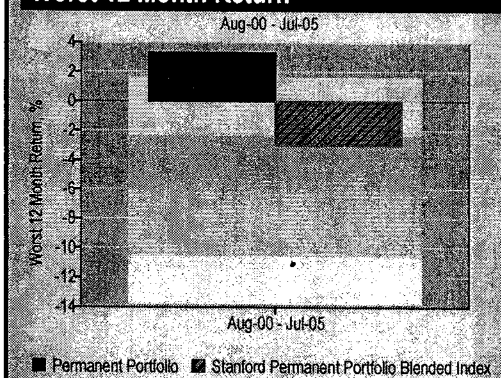
Up\Down Market Capture vs. Universe



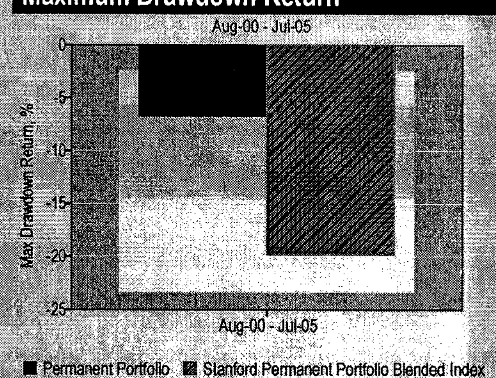
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Permanent Portfolio	7.73	6.08	-6.66	38.97	22.02	4.04	0.30	45.29	1.11
Stanford Permanent Portfolio Blended Index	17.71	12.92	-12.33	100.00	100.00	0.00	1.00	100.00	0.88
Morningstar Foreign Large Universe Median	5.92	4.04	-4.26	14.94	12.85	-0.16	0.11	11.78	0.23

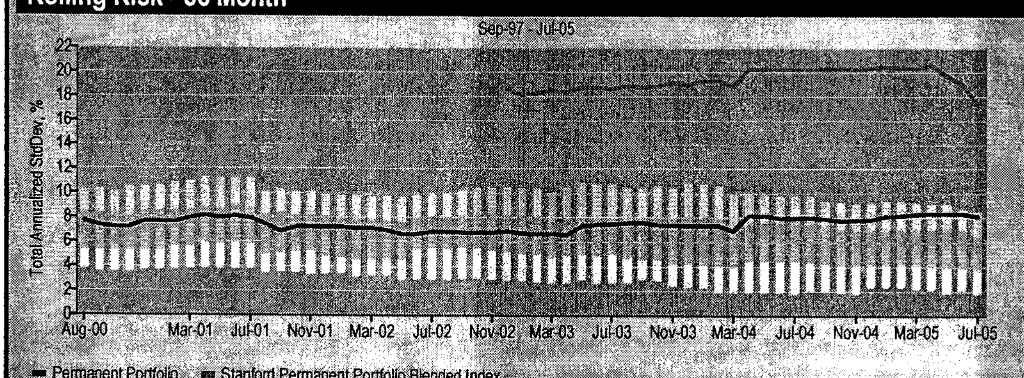
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Alpine Realty Income & Growth Y
AIGYX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

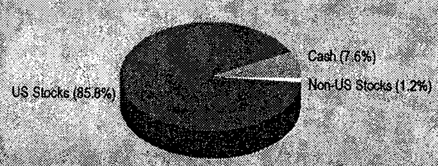
Prospectus Objective	Specialty - Real Estate
Morningstar Category	Specialty-Real Estate
Net Assets $MM	761.29
% Assets in Top 10 Holdings	32.59
Total Number of Holdings	74.00
Manager Tenure	6.00
Inception Date	12/29/1998
Expense Ratio	1.25

Mr. Robert W. Gadsden is the portfolio manager of the Alpine Realty Income & Growth Fund and serves as Senior Real Estate Analyst for Alpine. Prior to joining Alpine in 1999, Mr. Gadsden was a Vice President of the Prudential Realty Group. During the final years of his tenure at Prudential, he held responsibility for negotiating and structuring approximately $1 Billion of real estate securities transactions with public and private real estate companies. Prior to that, he served as Head Underwriter of the Real Estate Equity Group and in various positions within the real estate debt and asset management functions. Before joining Prudential in 1990, he was an Associate in the real estate advisory group of The Leggat McCall Companies in Boston, Massachusetts.

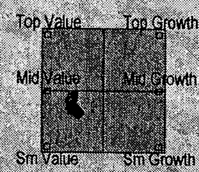
Objectives and Strategies

The Fund seeks a high level of current income with capital appreciation as a secondary objective. The Fund seeks to provide diversified exposure to the U.S. Real Estate market, through investment in dividend paying securities and debt securities of companies which are principally engaged in the real estate industry. The Fund's focus is on companies where dividends are both well covered by operating cash flow and are expected to grow over time. The investment emphasis is on acquiring shares of companies at a discount to their private market or break-up value. Alpine's evaluation favors companies with high return-on-equity, earnings and dividend growth potential which are not currently reflected in the share price. Most investments will be REITs and high yielding shares or debentures of real estate operating companies.

Asset Allocation



Style Allocation



Sector Allocation

Software	0.00%
Hardware	0.00%
Media	0.00%
Telecommunications	0.00%
Healthcare	0.00%
Consumer Services	10.19%
Business Services	0.64%
Financial Services	88.89%
Consumer Goods	0.23%
Industrial Materials	0.06%
Energy	0.00%
Utilities	0.00%

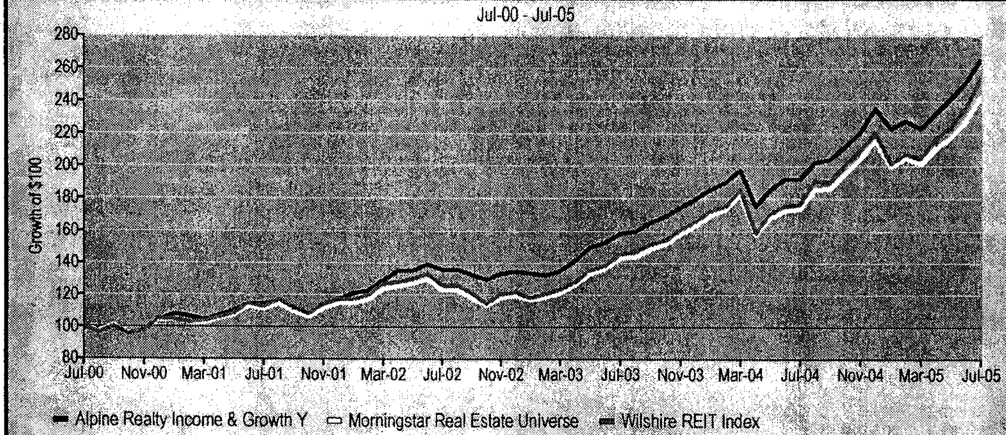
Top Ten Holdings as of 03/31/2005

Starwood Hotels & Resorts Worldwide	3.98%
Simon Property Group	3.94%
Vornado Realty Trust	3.59%
iStar Financial	3.47%
La Quinta	3.32%
General Growth Properties	3.09%
Felcor Lodging Trust	2.94%
Developers Diversified Realty	2.86%
Boston Properties	2.72%
Reckson Associates Realty	2.70%

Manager Profiles Alpine Realty Income & Growth Y AIGYX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

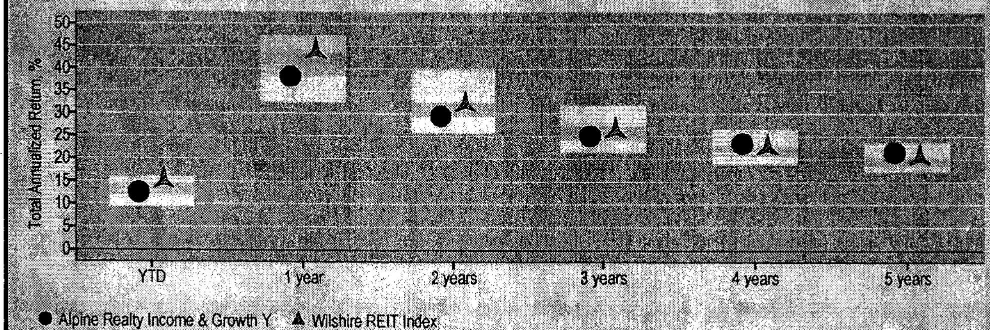
Performance

Growth of Assets



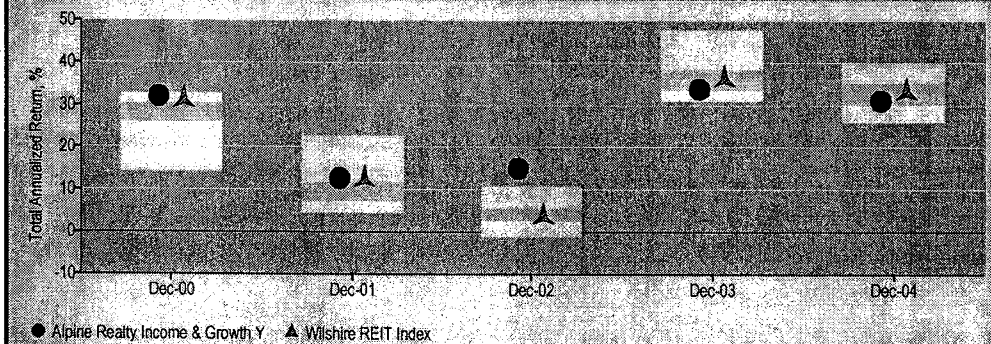
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Alpine Realty Income & Growth Y	21.54	23.45	25.07	29.46	38.17	12.50
Wilshire REIT Index	20.48	22.57	26.30	32.08	43.75	15.02
Morningstar Real Estate Universe Median	19.53	22.14	26.26	31.81	41.05	13.52



Calendar Year Returns

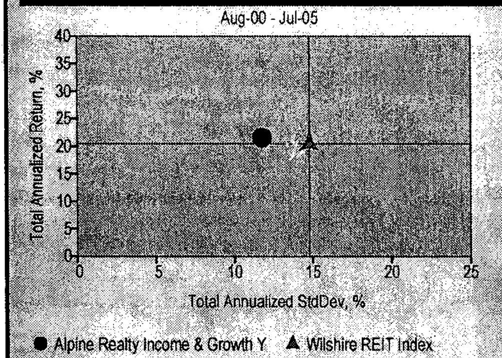
	2000	2001	2002	2003	2004
Alpine Realty Income & Growth Y	31.99	12.64	14.95	33.79	31.02
Wilshire REIT Index	31.04	12.35	3.60	36.18	33.14
Morningstar Real Estate Universe Median	28.65	9.27	4.14	36.57	33.21



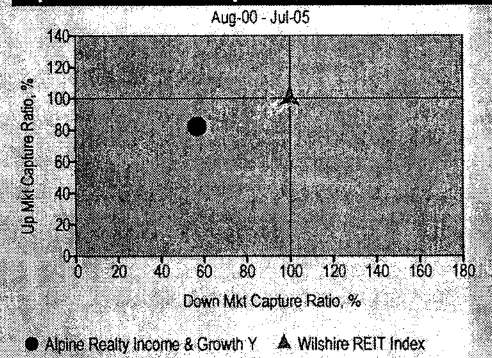
Manager Profiles Alpine Realty Income & Growth Y AIGYX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



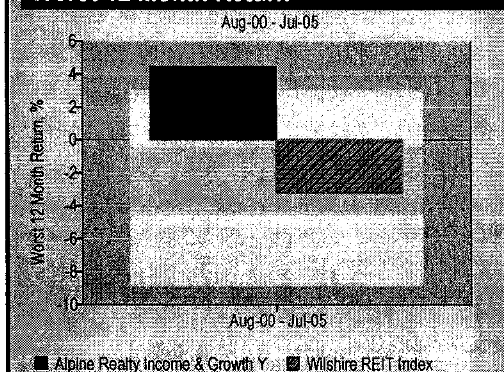
Up\Down Market Capture vs. Universe



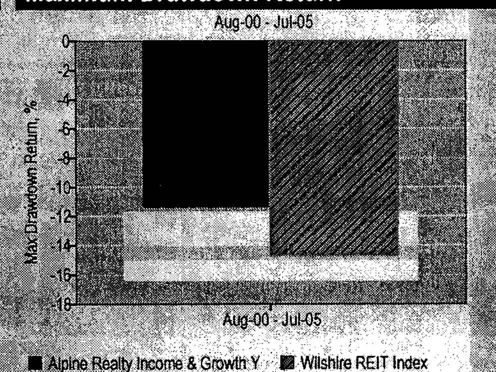
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Alpine Realty Income & Growth Y	11.78	6.83	-11.31	82.23	56.94	5.09	0.74	85.29	1.52
Wilshire REIT Index	14.81	8.25	-14.64	100.00	100.00	0.00	1.00	100.00	1.18
Morningstar Real Estate Universe Median	14.15	7.69	-14.11	94.00	91.82	0.14	0.93	97.69	1.46

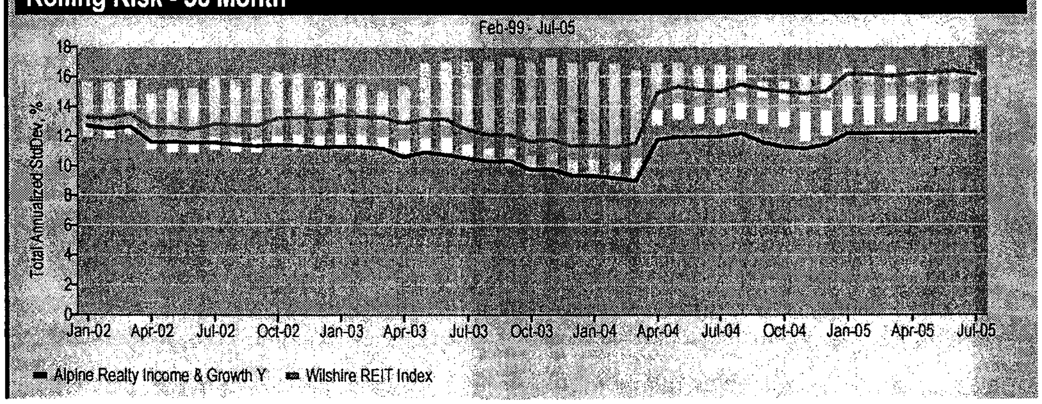
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Manager Profiles
Ivy Global Natural Resources A
IGNAX

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Fund Information

Prospectus Objective	Growth
Morningstar Category	Specialty-Natural Resources
Net Assets $MM	1134.78
% Assets in Top 10 Holdings	25.54
Total Number of Holdings	107.00
Manager Tenure	9.00
Inception Date	01/02/1997
Expense Ratio	1.55

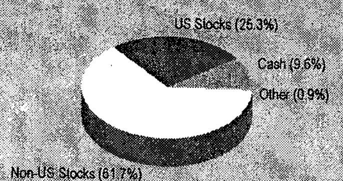
Fred Sturm, CFA is Senior Vice President at Mackenzie Financial Corporation. Mr. Sturm has over 20 years of industry experience and has managed Ivy Global Natural Resources Fund since its inception in January of 1997. Mr. Sturm earned a degree in commerce and finance from the University of Toronto and is a CFA charter holder.

Objectives and Strategies

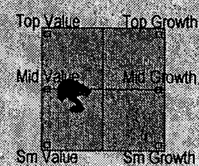
Objective: To provide long-term growth. Any income realized will be incidental.

Principal Strategies: Ivy Global Natural Resources Fund invests, under normal market conditions, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities (including common stock, preferred stock and securities convertible into common stock) of companies of any size throughout the world that own, explore or develop natural resources and other basic commodities or supply goods and services to such companies. For these purposes, "natural resources" generally include: *1. precious metals (such as gold, silver and platinum); 2. ferrous and nonferrous metals (such as iron, aluminum, copper and steel); 3. strategic metals (such as uranium and titanium); 4. fossil fuels and chemicals; 5. forest products and agricultural commodities; 6. undeveloped real property.* The Fund's sub-advisor, Mackenzie Financial Corporation, uses an equity style that focuses on both growth and value. Companies targeted for investment have strong management and financial positions, adding balance with established low cost, low debt producers and positions that are based on anticipated commodity price trends. The Fund may have some emerging markets exposure in an attempt to achieve higher returns over the long-term.

Asset Allocation



Style Allocation



● Ivy Global Natural Resources A ▲ HFRI Sector: Energy Index

Sector Allocation

Software	0.00%
Hardware	0.83%
Media	0.00%
Telecommunications	0.00%
Healthcare	0.00%
Consumer Services	0.00%
Business Services	2.14%
Financial Services	0.32%
Consumer Goods	0.64%
Industrial Materials	55.53%
Energy	40.13%
Utilities	0.42%

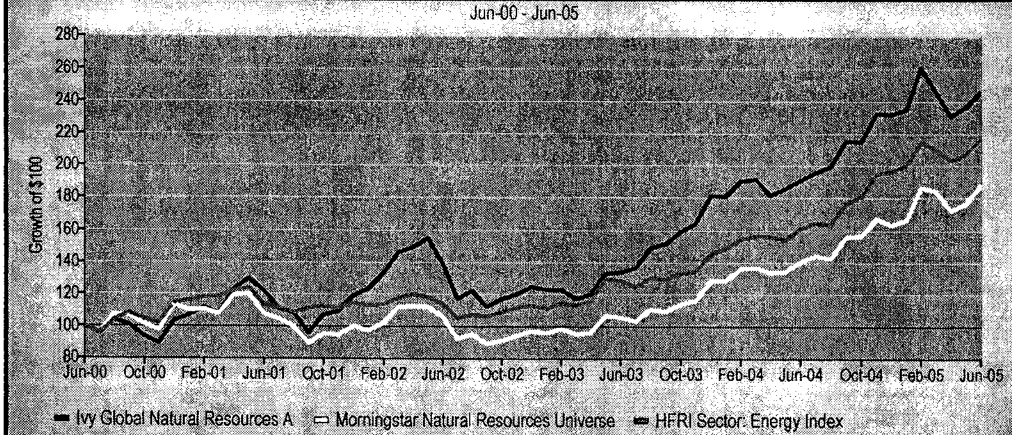
Top Ten Holdings as of 03/31/2005

Arch Coal	2.96%
Compania de Minas Buenaventura ADR B	2.89%
Barrick Gold	2.65%
Bahia Sul Celulose	2.59%
Petroleo Brasileiro ADR	2.56%
Patterson-UTI Energy	2.54%
Dow Chemical	2.53%
Aracruz Celulose SA ADR	2.42%
Yanzhou Coal Mining	2.27%
Impala Platinum Hldgs Ltd	2.14%

Manager Profiles Ivy Global Natural Resources A IGNAX	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordgroup.com)

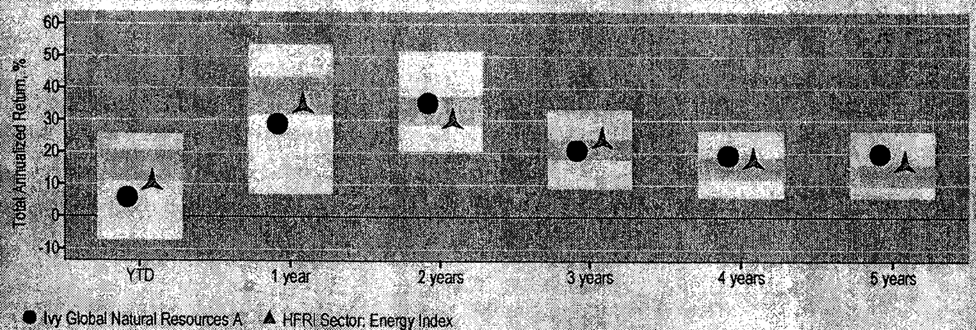
Performance

Growth of Assets



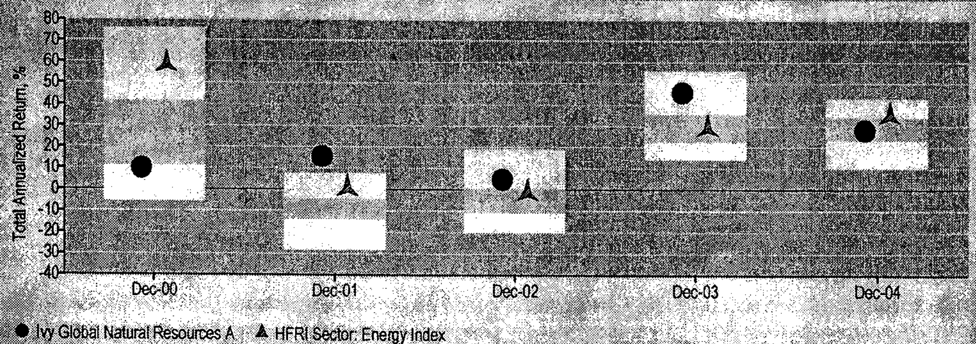
Trailing Returns

	YTD	1 year	2 years	3 years	4 years	5 years
Ivy Global Natural Resources A	19.71	19.18	20.77	35.46	28.84	5.95
HFRI Sector: Energy Index	16.72	17.57	23.81	29.77	34.36	10.32
Morningstar Natural Resources Universe Median	12.67	14.32	21.63	35.26	37.83	17.44



Calendar Year Returns

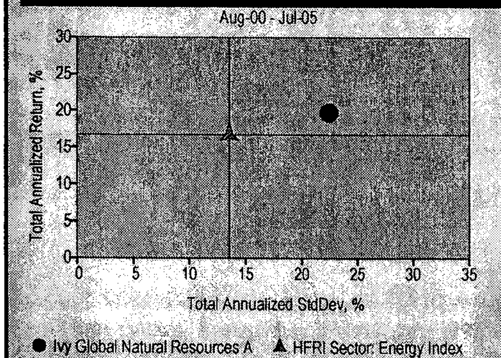
	2000	2001	2002	2003	2004
Ivy Global Natural Resources A	9.86	15.39	4.67	45.61	27.94
HFRI Sector: Energy Index	58.36	0.37	-1.49	28.83	34.91
Morningstar Natural Resources Universe Median	26.96	-11.37	-5.50	29.82	29.11



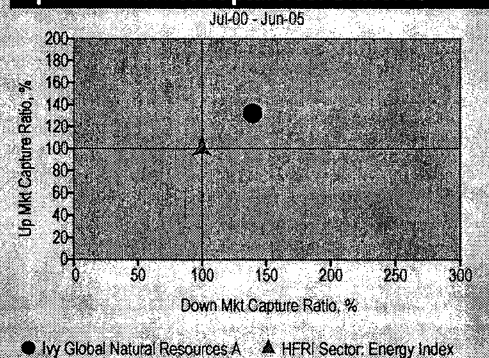
prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordgroup.com)

Risk & Risk-Adjusted Return

Risk\Return vs. Universe



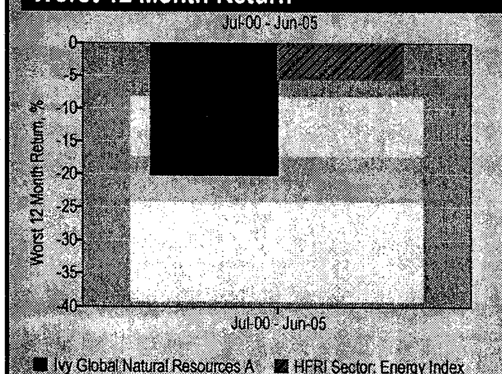
Up\Down Market Capture vs. Universe



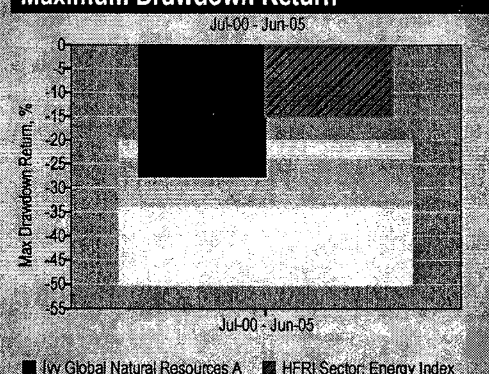
Risk\Return Statistics

Aug-00 - Jul-05	Annualized Standard Deviation (%)	Best Monthly Return (%)	Worst Monthly Return (%)	Up Mkt Capture Ratio (%)	Down Mkt Capture Ratio (%)	Alpha (%)	Beta	R-Squared (%)	Sharpe Ratio
Ivy Global Natural Resources A	22.49	15.43	-16.05	132.06	139.57	0.97	1.23	54.66	0.81
HFRI Sector: Energy Index	13.55	11.86	-8.32	100.00	100.00	0.00	1.00	100.00	1.03
Morningstar Natural Resources Universe Median	21.98	15.43	-13.62	120.43	150.52	4.62	1.29	68.00	0.64

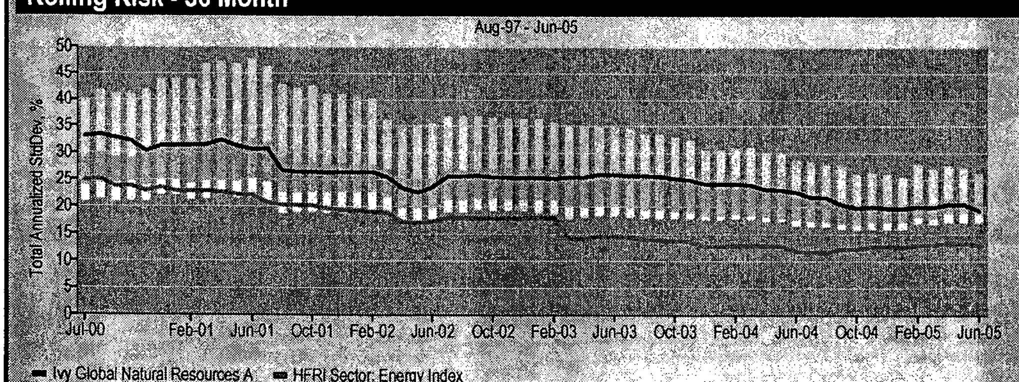
Worst 12 Month Return



Maximum Drawdown Return



Rolling Risk - 36 Month



Glossary

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Alpha Coefficient
An estimate of risk-adjusted investment performance, where beta coefficient is used as ameasure of risk. It is an indicator of the rate of return attributable to the investmentmanager after adjusting for the portfolio's level of market related risk. The expected valuefor the alpha coefficient is 0. That is, the portfolio's risk and return are in line with eachother. A positive alpha coefficient indicates the investment manager has earned a higher rateof return than expected given the portfolio's level of risk while a negative alpha coefficientindicates the investment manager has earned a lower rate of return than expected given theportfolio's level of risk.

Asset Mix
The proportions in percentage terms of the total portfolio valueallocated to each of theavailable portfolio segments expressed as an average for a period of time. The average can bebased on the explicit asset mix policy or the implied asset mix policy (i.e., the average mix of the account over the report period).

Asset Mix Policy
The portfolio's long-term asset allocation policy. The proportion in percentage termsof thetotal portfolio value allocated to each portfolio segment (equity, fixed income, cash andequivalents, other assets, etc.). The asset mix policy can be either explicit or implied. Anexplicit policy is one that is specified with changes permitted as frequently as monthly,although from an investment perspective, the changes should be infrequent. An implicit policyis one where no explicit policy is indicated and the system calculates the overall average forthe full report period.

Balanced Index
The average of various market indices selected to be representative of the asset classes of theportfolio being compared, weighted according to the asset mix policy of the portfolio (forexample, 70% Standard and Poor's 500 Stock Index, 20% Lehman Government/Corporate Bond Index,and 10% U. S. Treasury Bills).

Beginning Market Value
The market value of either the total portfolio or a portfolio segment as of the beginning ofthe period indicated. If the account data is on an accrual basis, the value includes themarket value plus the beg of period accrual except for scheduleswhere accrued income isitemized as a separate item.

Beta Coefficient
A relative measure of the sensitivity of a portfolio's return to changes in the benchmark. Thebeta coefficient measures market related risk. A portfolio with a beta of 1.00 has the samevolatility (risk) as the benchmark; a portfolio with a beta of 0.50 has half the volatility(risk) of the benchmark; and a portfolio with a beta of 1.50 has one and a half times thevolatility (risk) of the benchmark.

Capital Appreciation/Depreciation
The sum of both realized and unrealized capital gains and losseson some or all of theportfolio holdings.

Diversification
Investing in multiple securities or asset classes in order to reduce the risk unique to theportfolio and thereby reduce the total risk of the portfolio. Diversification is usuallymeasure by a statistical measure called R-Squared.

Dollar-Weighted Rate of Return
That rate of return which equates the beginning value and the cash flows in and out of theportfolio to the ending portfolio value. This is the rate of return attributable to the funditself. The dollar-weighted return should be used for any comparisons for the fund such as anactuarial rate. A dollar-weighted return reflects both the timing and magnitude of cash flowsto and from the fund or segment. It is sometimes referred to as the internal rate of return.

Down Cycle
A period of generally declining rates of returns measured from apeak (highest point) to atrough (lowest point).

Ending Market Value
The market value of either the total portfolio or a portfolio segment as of the ending date ofthe period indicated. If the account data is on an accrual basis, the value includes themarket value plus the end of period accrual except for scheduleswhere accrued income isitemized as a separate item.

Expenses
Those withdrawals which are an offset to income received by the portfolio. The usual exampleis payment of taxes on a foreign dividend. Both gross and net returns are lowered by theexistence of expense items.

Full Cycle
Periods of both rising and falling rates of returns measured from either a peak (high point) tothe next corresponding peak, or from a trough (low point) to thenext corresponding trough.

Gross Return
That return which is gross of the effects of the investment management fees charged to theportfolio. It includes the effects of expenses but excludes the effects of portfolio fees andinvestment management fees.

Income Return
The portion of total rate of return attributable to dividend andinterest income after deductions for any income related expenses.

Incremental Return
An estimate of risk-adjusted investment performance, where relative standard deviation is usedas a measure of risk. It is an indicator of the rate of return attributable to the investmentmanager after adjusting for the portfolio's level of total risk. The expected value for theincremental return is 0. That is, the portfolio's risk and return are in line with each other. A positive incremental return indicates the investment manager has earned a higher rate ofreturn than expected given the portfolio's level of total risk while a negative incremental return indicates the investment manager has earned a lower rate of return than expected giventhe portfolio's level of total risk.

Independent Variable
The base of comparison used when doing regression analysis. Typically, the independentvariable is a market benchmark against which the portfolio is being measured regarding risk anddiversification.

Invested Capital
The beginning market value of the portfolio at inception plus contributions less withdrawalsover the period of the report. Invested capital cannot drop below zero.

Investment Objective
A benchmark for either the total portfolio or segment performance used to evaluate theachievement of stated goals. The investment objective may changeas frequently as monthlyalthough typically it changes infrequently. It can be a combination of a constant annual rateof return, a single index return, a single index return plus a percentage, a single indexreturn times a factor, a balanced index return, a balanced indexreturn plus a percentage, or abalanced index return times a factor.

Investment Policy
A component of the investment process that involves determining an individual's or portfolio'sobjectives, particularly as to the trade-off between risk and return.

Large Capitalization
Large Capitalization or Large-Cap is a stock category and represents stocks of the largest capitalized companies. Although there is not a current industry standard that precisely defines the breakdown between Large, Mid, Smid and Small Capitalization; most firms recognize a large-cap stock as the stock of a company with a capitalization greater than $5 billion.

Market Index
A benchmark representing a particular asset class (i.e., equities and the S & P 500), ora balanced index representing a combination of asset classes (see balanced index).

Market Risk
That portion of a portfolio's total risk that is related to moves in the market benchmark, andtherefore cannot be diversified away.

Market Timing
That rate of return which measures the effect of shifting portfolio funds between various assetclasses, depending on the investment manager's perception of the relative near-term prospectsfor the various asset classes.

Median
That amount where there is an equal probability of observing a value greater or less than it.The median is usually used in conjunction with Universe Rankings. The median fund is the onewhich is at the middle of a ranked order of fund results for a time period. 50% of the fundslie above the median fund and 50% lie below the median fund.

Mid Capitalization
Mid Capitalization or Mid-Cap is a stock category and represents stocks of companies with a capitalization between large-cap and small-cap companies. Although there is not a current industry standard that precisely defines the breakdown between Large, Mid, Smid and Small Capitalization; most firms recognize a mid-cap stock as the stock of a company with a capitalization between $1 billion and $5 billion.

Modern Portfolio Theory
A statistically based theory of investing and portfolio construction which assumes thatinvestors seek both maximum return for a given level of risk andminimum risk for a given levelof return.

Net Return
That return which is net of the effects of the investment management fees. It includes theeffects of expenses and investment management fees but excludes the effects of portfolio fees.

Percentile
A value on a scale of 0 to 100 that indicates the percent of funds in the comparative Universe whose returns are equal to or above the fund's return for the selected period. A portfolio atthe 5th Percentile ranks in the top 5% of the comparative Universe and has outperformed 95% ofportfolios in the comparative Universe for the selected period.

Performance Attribution
The identification of sources of returns for a portfolio or security over a particular intervalof time.

Portfolio Fees
Those fees (withdrawals) which are associated with the operationof the portfolio but are notinvestment management fees. Accounting fees are typically categorized as portfolio fees.

Portfolio Segment
An asset class which represents a portion of the total portfolio's assets such as equity, fixedincome or cash and equivalents.

Principal Return
That portion of total return earned through realized and unrealized capital gains and losses.

Quartile
Usually used in conjunction with Universe comparisons, those percentile points which divide aranked list of comparative fund returns into 4 groupings. The first quartile represents thetop 25% of the Universe. The second quartile represents the 26thto 50th Percentile. The third quartile represents the 51st to 75th Percentile and the fourth quartile represents the bottom 25% of the universe.

R-Squared
That portion of the total variability in portfolio returns that is explained by variability inthe market benchmark returns. R-squared ranges from 0 to 100%. 0% represents no correlationwith the market benchmark, 100% represents perfect correlation with the market benchmark.

Reinvestment Return
The additional return attributable to compounding over more thanone period of time. Thereinvestment rate of return of a single period is always 0. For multiple time periods, thereinvestment rate of return is the difference between the total rate of return and the sum ofthe principal and income components.

Relative Standard Deviation
The standard deviation of the total fund or a segment relative to the standard deviation of theappropriate independent variable. For example, if the standard deviation of the total fund was17.50 and the standard deviation of it's independent variable was 15.00, the total fund'srelative standard deviation would be 17.50 / 15.00 = 1.17.

Risk Free Return
That return which can be reasonably known at the beginning of the reporting period. Typically,the return on short-term fixed income assets such as 30-day or 90-day Treasury Bills.

Risk Premium
The portion of return for a portfolio or market benchmark in excess of the risk free rate ofreturn. It is obtained by subtracting the risk free return (typically 30-day U. S. TreasuryBills) for the selected period from the portfolio or benchmark rate of return.

Risk-Adjusted Return
The return on an asset or portfolio, modified to explicitly account for the risk to which theasset or portfolio is exposed.

Security Selection
That rate of return attributable to the component of the investment process that involvesidentifying which assets to invest in and determining the proportion of funds to invest in eachof the assets.

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Small Capitalization
Small Capitalization or Small-Cap is a stock category and represents stocks of the smallest capitalized companies. Although there is not a current industry standard that precisely defines the breakdown between Large, Mid, Smid and Small Capitalization; most firms recognize a Small-Cap stock as the stock of a company with a capitalization less than $1 billion.

Smid Capitalization
Smid Capitalization or Smid-Cap is a stock category and represents stocks of companies whichcannot be categorized as large-cap. Although there is not a current industry standard that precisely defines the breakdown between Large, Mid, Smid and Small Capitalization; most firms recognize aSmid-Cap stock as the stock of a company with a capitalization less than $5 billion.

Standard Deviation
A statistical measure of risk reflecting the total variability (risk) of the portfolio orbenchmark. It measures the extent to which the returns for a portfolio or market benchmarkhave varied from period to period and represents the dispersion of the periodic returns aroundthe average return.

Time-Weighted Rate of Return
The rate of return which measures the rate of return attributable to the portfolio manager,eliminating the effects and timing of the cash flows (contributions and withdrawals for thetotal fund, purchases and sales for a segment). The time-weighted return is used forcomparisons of the manager against benchmarks and universes. The time-weighted returneliminates those factors which are not under the manager's control such as flows in or out ofthe portfolio.

Total Return
The performance of the total portfolio or one of the segments including principle return aswell as reinvestment of dividend and interest income.

Unit Value
A unit of measure which reflects the periodic compounding of thetime-weighted return. A basevalue of 100.00 is used which appreciates or depreciates based on the monthly time-weightedreturns. Unit values are useful in calculating the time-weighted return for any sub-period ofthe full reporting period.

Universe
A group of comparable portfolios chosen based on characteristicssuch as investment objective,investment style, asset size, level of risk, asset mix, or type of fund. The returns for thegroup of selected portfolios are usually presented in rank order(via percentiles) for varioustime periods.

Up Cycle
A period of generally rising rates of return measured from trough (lowest point) to peak(highest point).

DISCLOSURES

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

The Total Portfolio Index used in this presentation is weighted with the same asset mix as the recommended Total Portfolio. Theindex for each asset class is:

Large-Cap Blend	S&P 500	Small-Cap Blend	Russell 2000
Large-Cap Growth	Russell 1000 Growth	Small-Cap Growth	Russell 2000 Growth
Large-Cap Value	Russell 1000 Value	Small-Cap Value	Russell 2000 Value
All-Cap Blend	Russell 3000	Mid-Cap Blend	Russell Mid-Cap
All-Cap Growth	Russell 3000 Growth	Mid-Cap Growth	Russell Mid-Cap Growth
All-Cap Value	Russell 3000 Value	Mid-Cap Value	Russell Mid-Cap Value
Smid-Cap Blend	Russell 2500	Cash	Salomon 3-Month T-Bill
Small-Cap Growth	Russell 2000 Growth	Certificate of Deposit	6-Month Jumbo CD Index
Small-Cap Value	Russell 2000 Value	Fixed Income	Lehman Bros. Govt/Credit
Fund of Funds	HFRI Fund of Funds Index	Commodities	Goldman Sachs Commodity Index

Calculation of historical returns for the Total Portfolio and Total Portfolio Index are based on the proposed asset allocation and uses the same allocation for each historical period. Historical periods for money managers are calendar quarters and calendar months for mutual funds. In cases where mutual funds and money managers are both utilized, the historical periods are calendar quarters. These Hypothetical Historical Performance returns are Net of manager fees only, and does not account for fees wrapped of any associated account. The Hypothetical Historical Performance allocation assumes a Quarterly re-balance. These are not actual current portfolios, but hypothetical historical allocation based on the allocation assumptions made in the proposal. Actual performance can and will vary; past performance is not an indication of any future results.

The annualized Total Returns in this report are gross of fees.

SAM Global portfolio performances based on the historic Salomon Brothers 5-Year Treasury Index yield plus 250bps respectively.

These results do not reflect a deduction of the wrap account fee, which is inclusive of the advisory fee to the manager, commissions charged on transactions, and fees for related services. The composition of gross returns varies bymanager, but for most managers the returns do not reflect a deduction of the advisory fee charged and are net of commissions charged on transactions.

When comparing the performance of different managers, keep in mind that there may be differences in the investment styles of managers even though they may be grouped in the same asset category. The choice of any money manager should not be based on performance alone. Other factors mustbe taken into consideration including your investment objective, risk tolerance, and investment time horizon. Actual results may differ from the performanceshown herein.

Indices are unmanaged and are not subject to fee or commissions/transaction costs.

The information contained herein is based on data from multiple sources. Stanford Group makes no representation as to its accuracy or completeness nor should it be considered as the sole basis for investment decisions.

Past performance and the investment return and principal value of an investment may fluctuate so that upon liquidation, it may be worth more or less than its original cost.

The hypothetical calculations are based upon quarterly performance data. This is for illustrative purposes only. Past performance is no guarantee of future results. The charts and graphs assume an initial investment of $1,000,000 over a 10-year time horizon with dividends and capital gains reinvested.

Fixed income rates may be fixed at the time of issuance, and payment of principal and interest is guaranteed by the issuer and, in the case of U.S. Treasury obligations, backed by the full faith and credit of the U.S. Treasury. The market value of such obligations will generally fluctuate inversely with interest rates and other market conditions prior to maturity and will equal par value at maturity. The value of Treasury bonds will fluctuate more than Treasury bills since maturities are longer. The market value of stocks will fluctuate with market conditions. All fixed income investments, including Treasury bonds, are subject to day-to-day market value fluctuations. If sold prior to maturity, they could be worth more, or less, or just the same as your initial investment. Specified municipal issues may be subject to the Alternative Minimum Tax.

Standard Deviation (Std. Dev): This indicates the volatility of total returns as measured against its mean performance. Standard deviation is investment specific, not compared against a market index. In general, the higher the standard deviation, the greater the volatility or risk.

Any mutual funds listed in this report are sold by prospectus only. This presentation is not a solicitation or recommendation to purchase any of the mutual funds listed. Please contact your Financial Advisor for a prospectus containing more complete information, including charges and expenses. Please read the prospectus carefully before investing or sending money.

STANFORD INTERNATIONAL BANK LTD.

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

General Terms & Conditions

The Bank's General Terms and Conditions, as set forth herein shall governthe relationship between the Depositor and the Bank.

1. The Bank agrees to open any account, upon its acceptance of the Depositor's Account Application and receipt of the minimum required deposit together with such other documentation as may be required. As used in these Terms and Conditions, the singular term "Depositor"shall mean the owner of the account and in the case of joint accounts or partnerships, unincorporated associations or unincorporated business accounts, shall refer to eachof the signatories on the account.

2. The Bank reserves the right, at its sole discretion, to accept or reject any new Account Application. Notwithstanding anything else to the contrary contained herein, the Bank reserves the right, in its sole discretion, to close a Depositor's account, at anytime. The Bank shall have full discretion to initiate, modify or increase any amount and assess any fees or other charges, which the Bank may deem appropriate or necessary for any customer transactions or administrative costs.

3. By submitting a completed and signed Account Application the Depositor is requesting and authorizing the Bank to review and verify any and all information submitted or necessary to substantiate the information provided.Any and all deposits enclosed with the Account Application shall only begin to accrue interest upon approval of the account by the Bank in accordance with the Bank's normal practice. Any instructions provided by the Depositor atthe time the Account Application is submitted shall only be executed when the Bank has informed the Depositor that the Depositor's Account Application has been approved. The Bank shall take a reasonable period of time to conduct its due diligence in the investigation and documentation of all information required. In the event the Depositor's Account Application is rejected, the Depositor's funds shall be returned,along with any items or documents, within a reasonable period of time. All deposits and items are accepted provisionally until the Bank hasaccepted the account and all items have cleared.

4. The Bank may request, at its sole discretion, any documentation that it may deem necessary to substantiate or authenticate any information provided by the Depositor. Such documents, may include but are not limited to, avalid and legible photo identification, bank references, financial reports,certificate of good standing, corporate resolutions or partnerships agreements. Furthermore, the Bank reserves the right to request such additional information, as it may deem necessary during the term of any account.

5. The Bank shall exercise due care in executing instructions givenby the Depositor. In the event that ambiguous or conflicting instructions are given regarding any account, the Bank shall be entitled to act or decline to act as the Bank sees fit without incurring any liability to the Depositor. In the performance of its duties a default may occur, for which the Bank might be held responsible,the will only reimburse those charges that it may deem reasonable. In any event, the Bank will not accept any liability for loss of income, profit, or missed investments and the like. The Depositor explicitly accepts the Bank's limit of liability and hereby irrevocably agrees, upon demand to indemnify the Bank and hold the Bank harmless from and against any and all claims for damage or losses arising from such default.

6. No signatories to an account may be amended, changed or substituted until such written request has been submitted and acknowledged by the Bank.

7. In any event, the Bank shall not be liable for any damages that may arise from the forgery or misuse of any signature in this orany account, which may be opened subsequently, except for the Bank's gross negligence.

8. In the event there are multiple Depositors on one account, the Bank is expressly authorized to recognize and honor any of the signatures subscribed on the Account Application as the Bank's authorization for the payment of funds from the account. Each Depositor hereby agrees with the right of survivorship. The form of ownership of the account may be changed only with instructions signed by all of the Depositors and acknowledged by the Bank. The account shall be subject to payment upon the cheque, draft, item or withdrawal ofany of the Depositors, and the payment thereof upon the order of any one of the Depositors shall discharge the Bank from liability to all of the Depositors and of their beneficiaries, executo rs,administrator's successors or assigns. Furthermore, each Deposit in the account. In addition, subject to the provisions of these Terms and Conditions, each Depositor may pledge or assign, or dispose of , any funds in the account.

9. The Bank shall have a right of lien on all assets in any accounts held at the Bank or elsewhere for the Depositor and a right tooffset all monies owing to Depositor against any amounts owed by Depositor to the Bank, irrespective of maturity date or prescription. Such rights shall also apply to all early withdrawal penalties, advances, loans or credit card balances, whether secured or unsecured. The Bank shall be entitled to realize the pledged assets without further formality, court order or government action at its discretion, should the customer be in default of payment. Depositor agrees to release and indemnify theBank from all liability for its actions.

10. The use of postal service, telephone, facsimile, cable telex services, e-mail or any other means of communication or data transport by oron behalf of Depositor, shall be the sole responsibility of the Depositor shall do so at his own risk. While the Bank shall seek to comply with the Depositor's instructions, the Bank shall have no liability or responsibility for the veracity or authenticity of such transmissions and for failure to execute these instructionsunless it shall have acted with gross negligence or willful misconduct. Any monetary damages or loss that may arise from such use, by reason of omission, loss, fraud,delay, erasure, misunderstanding, mutilation or duplication shall be the sole responsibility of the Depositor. The Depositor hereby irrevocably agrees, upon demand, to indemnify and hold the Bank harmless from and against any and all monetary damages or losses. This indemnification shall survive the termination of any authorization or any account.

General Terms & Conditions (continued)

11. The Bank does not accept cash, cash equivalents or third party items for deposit in any account.

12. Cheques are mailed in accordance with the Depositor's instructions at the Depositor's risk. THE BANK MAY FORWARD ITEMS TO ITSCORRESPONDENT BANKS FOR COLLECTION, AND SHALL NOT BE LIABLE FOR DEFAULT OR THENEGLIGENCE OFCORRESPONDENT BAKS OR FOR LOSSES IN TRANSIT.

13. All items are credited to the account conditionally and are subject to collection by the Bank. Deposits of cheques and wire transfers in the account shall begin to earn interest when funds are collected by the Bank, in accordance with the Bank's normal practice. The Depositor shall be responsible for any exchange and handling fees, which may be incurred in connection with any item and such fees shall be for account of the Depositor.

14. All interest income shall be paid TAX-FREE at source. The Depositor understands and Agrees that it is the Depositor's responsibility to comply with any laws or regulations regarding the establishment and/or maintenance of anaccount or any interest earned thereon in the Depositor's domicile or legal jurisdiction.

15. The offer and acceptance of the deposits provided for herein maybe prohibited or limited in certain jurisdiction. It is understood that it is the responsibility of the Depositor, or any person who is considering making a deposit in the Bank, to inform himself regarding, and to comply with, all the legal provisions and regulations in force in his jurisdiction with respect to the making and delivery of the deposit, exchange controls, taxes and similar matters.

16. Any complaint by the Depositor regarding withdrawals, deposits or any other instructions executed or omitted by the Bank shall be made in writing and received by the Bank within thirty (30) days of the most recent statement inquestion, or the period in which the Depositor may be reasonably deemed to have received such acknowledgements. Failure to inform the Bank, as stated, shall constitute an absolute acceptance and approval of the action or omission by the Depositor, notwithstanding any other standing arrangements between the Depositor and the Bank. The Depositor agrees that in case of such dispute, the Bank's General Ledger, general accounting books and Depositor's instructions shall be sufficient and complete evidence of the transaction unless the Depositor is able to prove otherwise.

17. A statement of Account will be tendered periodically as indicated by the Depositor and mailed to the Depositor at the last knownaddress shown by the Bank's records, unless the Depositor advises otherwise in writing. In the event the Depositor receives quarterly or half-yearly statements, the Bank's liability shall be limited to the declared value of the item or items concerned.

18. No delay or omission on the part of the Bank in the enforcement or exercise of any of its rights in connection with an account shall operate nor be construed as a waiver of such rights, and no such delay or omission shall prejudice the Bank in its later enforcement or exercise of such rights afforded to the Bank by law of by separate agreement between the Depositor and the Bank.

19. The Depositor agrees to indemnify and to hold the Bank harmless upon demand, from, against and in respect of any and all costs, expenses, losses and damages, including all reasonable attorney's fees and expenses, whether or not suit is brought, incurred bythe Bank in connection with any controversy, official or governmental investigation, claim or dispute relating to an account or to any transaction effected through an account, by whomsoever brought or made, unless such costs, expenses, losses and damages are held by a court in Antigua and Barbuda WI to have been incurred as the result of the Bank's gross negligence or willful misconduct.

20. The present Terms and Conditions express the definitive legal rights and obligations of the Depositor and the Bank. No agreementor representation,unless incorporated in these Terms and Conditions, shall be binding upon either party. The Bank shall have the right to amend these Terms and Conditions at any time. Any deviation from these General Terms and Conditions shall be valid only when agreed upon in writing and properly acknowledged by both parties.

21. The Bank shall have the right at any time to amend the General Terms and Conditions. Such amendments shall be notified to the Depositor in an appropriate manner and in the absence of any written objections shall be deemed to have been accepted after a period of one month has elapsed.

22. The account(s) are subject to the terms and restrictions contained in the applicable Terms of Deposit. The Depositor acknowledges receipt of said Terms of Deposit, which forms an integral part hereof by reference.

23. These Terms and Conditions shall be interpreted in accordance with the laws of Antigua and Barbuda, W.I. For any action or proceeding which the Bank or the Depositor may commence in connection with the account or with any operation or transaction involving payment to or from the account,the Depositor irrevocably submits to the jurisdiction of the courts of Antigua and Barbuda, W.I., and to the fullest extent permitted by law, as well as waiving any claim that such courts would be an inconvenient forum. Jurisdiction for all legal proceedings shall be in Antigua. The Bank furthermore shall have the right to take legal action against Depositor before the competent court in Depositor's place of domicile or before any other competent court.

By signing the Account Application Form and other pertinent Bankdocumentation, the Depositor(s) acknowledge(s) receipt of a copy of and express(es) agreement with the General Terms and Conditions of the Bank along with specific information as it relates to the particular accounts requested. The Depositor(s) further acknowledge(s) that the General Terms and Conditions areprovided in Spanish solely as an informational service but thatin the event of any legal action arises in connection with an account or Depositor in a competentjurisdiction, the Depositor agreed to be bound by the English version.

STANFORD INTERNATIONAL BANK LTD.

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Terms of Deposit

CERTIFICATE OF DEPOSIT

Your account at Stanford International Bank LTD. ("Bank") is governed by the General Terms and Conditions of the Bank and the specific Terms of Deposit. Your deposit is not negotiableand is not transferable (except on the books and records of the Bank) and is subject to the applicable laws and regulations of Antigua and Barbuda W.I. "CD"means the certificate or receipt or investment confirmation in any format whatsoever issued by the Bank to evidence your time deposit.

TYPES OF CERTIFICATE OF DEPOSIT

FLEX CD

Minimum initial deposit of US$10,000 is required to open this account. Minimum additional deposits in increments of US$5,000. Interest shall be compounded daily and may be withdrawn at any time. Withdrawals of up to 25% of the principal deposited are allowed without penalties, provided that the Bank has been properly notified at least five (5) working days in advance. There is a limit of four (4) withdrawals per year. Any withdrawals over and above 25% of the principal balance as stated above, shall be subject to early withdrawal penalties. Available in most international currencies (applicable amounts will bethe equivalent of the US Dollar amount in the foreign currency). Deviations from any of these terms shall automatically be considered as an early withdrawal, which shall be subject to penalties.

FIXED CD

Minimum initial deposit of US$10,000 is required to open this account. Interest shall be be compounded daily. Interest is accumulated and is payable at maturity. No additional deposits may be made. No withdrawals (including accumulated interest) are permitted. Available in most international currencies (applicable amounts willbe the equivalent of the US Dollar amount in the foreign currency). Deviations from any of these terms shall automatically be considered as an earlywithdrawal which shall be subject to any penalty.

ADDITIONAL CONDITIONS

MATURITY CONDITIONS. AUTOMATIC RENEWAL OF CDs

Unless the Bank has in its possession instructions at least five(5) working days before the maturity date ("notification period") of your CD, your CD will automatically be renewed for a periodequal to the maturing term at the current interest rate. Oncethe notification period has lapsed, any withdrawals or changes shall be subject to early withdrawals penalties. Thenew interest rate will be that which is paid by the Bank on deposits of like maturity and amount at the time of such renewal, or as disclosed to you by prior written notice. The type of account you hold may be discontinued upon prior written notice as prescribed by applicable rules and regulations. Interest earned during any preceding period, but not paid to you, shall become part of principal and shall be subject to a penaltyfor early withdrawal during the renewal terms.

INTEREST CALCULATION METHOD

The Bank uses the daily compounding method to calculate intereston your deposit. The annual percentage yield (APY) disclosed on the face of the CD and, if applicable, the CD maturity notice assumes interest will remain on deposit until maturity. A withdrawal will reduce earnings. Interest for all CDs is calculated on a basis of 365 days. Deposits and withdrawals of principal are not permitted except at maturity or unless specifically permitted except under the terms of your deposit.

PENALTY FOR EARLY WITHDRAWAL

You have agreed to keep funds on deposit for the stated maturityof the deposit. The following penalties for early withdrawal apply: for terms of up to 6 months, the penalty shall be one month's interest; for terms up to 12 months, the penalty shall be two months'interest; for terms greater then 12 months, the penalty shall be three months interest. The Bank will use the compounded daily interest rate in effect to calculate the amount of the penalty. Early withdrawal penalties may require areduction in the principal if the amount of accrued interest onthe deposit is less than the penalty.ASSIGNMENTS No assignment of the deposit will valid, without the Bank's prior written consent.

PERFORMANCE AND PREMIUM ACCOUNTS

A minimum initial deposit of US$10,000 is required to open thisaccount. A minimum balance of US$10,000.00 shall be maintainedon deposit at all times. Deposit may be made at any time. Withdrawals of all or any part of the available balance may be at any time after deposits have been credited to the account with written notice given to the Bank fifteen (15) days prior to the value date for such withdrawal. Available in most international currencies (applicable amounts will be equivalent of the US Dollar amount in foreign currency). Interest may by adjusted without prior notice. Interest shall be compounded daily.

PREMIUM ACCOUNT

A minimum initial deposit of US$50,000 is required to open this account. A minimum balance of US$50,000 shall be maintained on deposit at all times. Deposits may be made at any time. Withdrawals of all or any part of the available balance may be made at any time after deposits have been credited t the account with written notice given to the Bank fifteen (15) days prior to the value date for such withdrawal. Available only in US Dollars. Interest rate shall be adjustable an equivalent to the performance averages of selected United States Treasury bills and notes. Interest shall be compounded daily.

ADDITIONAL CONDITIONS

The Bank will issue a duly executed New Account Confirmation to the Depositor within thirty (30) days from the date of receipt and approval by the Bank of the Account Application.

ASSIGNMENTS

No assignment of the deposit will be valid, without the Bank's prior written consent.

EXPRESS ACCOUNT

Only available to Depositor with a currently existing additionalaccount relationship. A minimum initial deposit of US$1,000 isrequired to open this account. Deposits may be made at any time. Withdrawals from the Express Account will be affected on the available balance onthe next banking day after receipt by the Bank of proper withdrawal instructions from the Depositor. Available in most international currencies (available amounts will be equivalent of the US Dollar amount inthe foreign currency). Interest may by adjusted without prior notice. Interest shall be compounded daily. Interest shall be paid at the current rate established by the Bank on balances of US$5,000.00 or more. Balances between US$1,000 and US$5,000 shall earn interest rate of 1%; any balances below US$1,000 shall not earn interest. In theevent the balance on the Express Account falls below US$150, the account will become subject to an administration fee of US$10 per month.

ASSIGNMENTS

No assignments of the deposit will be valid, without the Bank's prior written consent.

Confidential Investment Policy Questionnaire

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Client Type

Primary Owner		Joint Owner	
○ Accredited	○ Non-Accredited	○ Accredited	○ Non-Accredited

Client Information

Account Registration

Primary Owner	Joint Owner
Name	Name
Telephone Number (home)	Telephone Number (home)
Telephone Number (work)	Telephone Number (work)
Social Security (or TaxID)	Social Security (or TaxID)
Date of Birth	Date of Birth
Country of Residence	Country of Residence

Notice

The Information provided herein will be used to determine your investment goals and risk tolerance with regard to your overall investment portfolio. You understand that any investment allocation recommendations made by Stanford Group or any of its financial consultants will be based on such overall goals and may not necessarily be reflected in the investments of assets held in any one account, from time to time. Additionally, you understand that any recommendations made are intended for your use for arriving at a reasonable, fully explained investment decision and not as a compilation of the only possible investment vehicle and modes.

Assets, Income & Taxes

Primary Owner

Assets	Income
$ Cash	$ Annual Income
$ Bonds	
$ Stock	**Taxes**
$ Retirement Funds	% Current Federal Income Tax Rate
$ Real Estate	% Estimated Tax Rate for the next 2 years
$ Alternative Assets	
$ Total Assets	
$ Total Net Worth	

Joint Owner

Assets	Income
$ Cash	$ Annual Income
$ Bonds	
$ Stock	**Taxes**
$ Retirement Funds	% Current Federal Income Tax Rate
$ Real Estate	% Estimated Tax Rate for the next 2 years
$ Alternative Assets	
$ Total Assets	
$ Total Net Worth	

CONFIDENTIAL INVESTMENT POLICY QUESTIONNAIRE (CONTINUED)

A personal investment proposal for
(Client Name)
(Date)

prepared by (Advisor Name)
phone (555.555.5555)
email (advisor@stanfordeagle.com)

Portfolio Type

Please select the Investment Advisory Group program to be used in this proposal.

- O Mutual Fund Partners (Mutual Funds)
- O Portfolio Advisors (Money Managers)
- O Stanford Asset Management (SAM - Fixed Income)
- O Stanford Investment Plan (All-inclusive strategy)
- O Flexible Asset Management

Account Type & Assets

Please select *one* of the following account descriptions:

Employer Sponsored Retirement Plan	Individual Retirement Plan	Investment Accounts	Bank/Savings Accounts
O 401(k)	O Traditional IRA	O Brokerage	O Money Market
O 403(b)	O Rollover IRA	O Mutual Funds Direct	O CD
O 457	O Roth IRA	O Annuities	O Savings
O Keogh	O Education IRA	O Personal Trust	
O SEP IRA		O Corporate	
O Simple IRA			

Are there any tax considerations relating to the management of this portfolio? O Yes O No

If yes, please explain briefly: (If applicable to this portfolio, you may specify that the fixed income allocation be invested in tax-free municipal bond funds)

What is the beginning asset balance to invested in this strategy? $

This is equal to what percentage of the client's total assets? %

Portfolio Objectives & Risk Tolerance *(Risk/Return)*

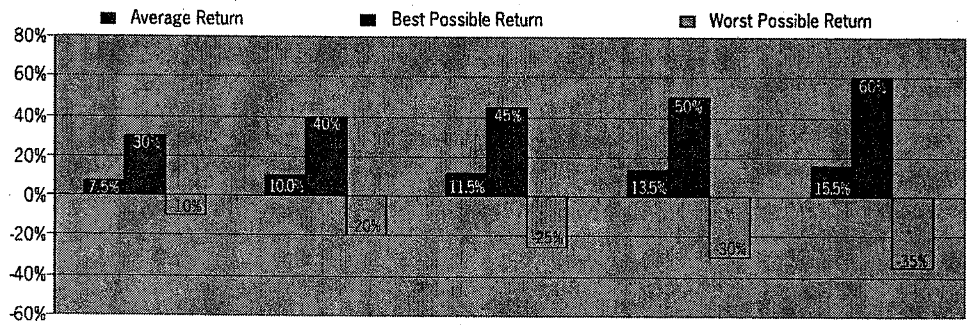
How would you best characterize your goals for these investments?

- O Capital Preservation – principal protection with income as a secondary consideration
- O Income – income with capital appreciation as a secondary goal
- O Balanced – capital appreciation and income
- O Growth – capital appreciation with income as a secondary goal
- O Aggressive Growth – capital appreciation only

How much above inflation do you expect this account to earn?

O 0% to 3% O 4% to 6% O 6% to 8% O 8% to 10% O Above 10%

The following chart shows best and worst one-year returns. Please indicate your risk tolerance. For example: a 3 indicates you are willing to risk losing as much as 25% of your portfolio for an opportunity to gain as much as 45%.



O 1 O 2 O 3 O 4 O 5

What is your typical response to market fluctuations?

- O I will sell quickly any time an investment loses value
- O If my investment loses value over a 3-6 month period, I am likely to sell
- O If my investment loses value over a 7-12 month period, I am likely to sell
- O I usually watch my investments for at least a year before making changes
- O Realizing that long-term investing maximizes potential returns, I will stay invested, even if poor market conditions result in sizeable losses in a given year

CONFIDENTIAL INVESTMENT POLICY QUESTIONNAIRE (CONTINUED)	A personal investment proposal for (Client Name) (Date)	prepared by (Advisor Name) phone (555.555.5555) email (advisor@stanfordeagle.com)

Portfolio Objectives & Risk Tolerance (Risk/Return) Continued

Which of the following best describes how you feel about downside portfolio volatility?

- O I would rather have no return as long as principal is protected
- O I would rather have minimal returns than risk losing money
- O I would like to achieve higher returns with some downturns in my portfolio
- O Priority is to achieve higher returns and will accept significant downturns in value

Expected Time Horizon & Cashflow Summary

How long do you anticipate investing these funds with your current account objectives?

O Under 2 years O 2 to 3 years O 4 to 5 years O 6 to 7 years O 8 or more years

Contributions

Do you expect to make contributions to your account? O Yes O No

Frequency: O Monthly O Quarterly O Annually O As a lump sum

Amount: ______

Starting: ______ Ending: ______

Withdrawals

Do you expect to make contributions to your account? O Yes O No

Frequency: O Monthly O Quarterly O Annually O As a lump sum

Amount: ______

Starting: ______ Ending: ______

Additional Constraints & Considerations

Indicate if any of the following investment instruments that should be excluded from the allocation strategy?

O Cash & Fiduciary Deposits O Government Bonds O Corporate Bonds O Equity O Coins & Bullion

O Alternative Investment Strategies O Real Estate O Private Equity

Are there any asset allocation constraints or restrictions for your portfolio? O Yes O No

If yes, please explain: ______

Do you have specific instructions regarding your portfolio? O Yes O No

If yes, please explain: ______

Signatures

THE INFORMATION PROVIDED IN THIS DOCUMENT IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE. (I UNDERSTAND THAT MY SIGNATURE ON THIS QUESTIONNAIRE DOES NOT OBLIGATE ME TO ENTER INTO A RELATIONSHIP WITH THE STANFORD GROUP AND THAT ALL INFORMATION PROVIDED WILL BE HELD IN THE STRICTEST OF CONFIDENCE).

Accounts(s)

Primary Owner

X ______
Signature

Name & Title

Date

Joint Owner

X ______
Signature

Name & Title

Date

X ______
Financial Advisor