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REPORT OF INVESTIGATION

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
OFFICE OF INSPECTOR GENERAL**

Case No. OIG-526

**Investigation of the SEC's Response to Concerns
Regarding Robert Allen Stanford's Alleged Ponzi Scheme**

Appendix, Volume II

March 31, 2010

EXHIBIT 20

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 17
PAGES: 1 through 63
PLACE: Securities and Exchange Commission
801 Cherry Street
Burnett Plaza, Suite 1900
Fort Worth, Texas
DATE: Wednesday, January 27, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 1:00 p.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5 (b)(6), (b)(7)c

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Securities and Exchange Commission

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On behalf of the Witness:

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HUGH M. WRIGHT, PRO SE

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1 (SEC Exhibit No. 3 was marked for
2 identification.)

3 BY MR. KOTZ:

4 Q Do you recall these STARS printouts or the STARS
5 system?

6 A I recall the system.

7 Q Okay. This is a printout of the same examination.
8 Says Stanford Group Company, (b)(6), (b)(7)c, who at that time
9 worked for Julie Preuitt, and has some details of the exam.
10 Then if you notice on the last page, Page 5 of this document,
11 Exhibit 3, it says, "Violations description, possible
12 misrepresentations, possible Ponzi scheme."

13 A Uh-huh, yes.

14 Q And so I know you weren't specifically or directly
15 involved in this examination, but do you recall generally
16 that in 1997, there was a broker-dealer exam of Stanford and
17 the conclusion of the examiners was this was a potential
18 fraud or Ponzi scheme?

19 A Yes. As far as I was concerned at that period of
20 time, in enforcement we all thought it was a Ponzi scheme to
21 start with. Always did.

22 Q That's as far back as this or whenever you first
23 heard of it in 1996?

24 A Yes. There were people in enforcement that had
25 heard about it, looked at it, you know, generally. They

1 hadn't gone and done any physical examination or anything of
2 that nature. But, you know, the whole thing was improbable
3 from an economic standpoint.

4 Q Because of the returns?

5 A Yeah.

6 Q And so the returns that Stanford was providing
7 people didn't seem to be possible from an economic
8 standpoint?

9 A Yes. And one of our accountants was from Mexia,
10 lived down in that area, so he was --

11 Q (b)(6), (b)(7)c ?

12 A He was familiar with Stanford, yes.

13 Q That was (b)(6), (b)(7)c ?

14 A Yes.

15 Q Let me show you in Exhibit 2, the last page of the
16 actual exam report, it references the fact that,
17 "Recommendation: We will send a deficiency letter to the
18 firm." And then it also says, "We will provide a copy of our
19 report to the FWDO Division of Enforcement for their review
20 and disposition."

21 A Yes.

22 Q And then we have documents that show that a MUI, a
23 matter under inquiry, was opened in 1998 as a result of this
24 referral. What we're not so clear on is what was done as
25 part of that matter under inquiry. It was open for a

1 relatively short period of time and closed. Do you have --
2 can you shed any light on that?

3 A Well, in all probability, what happened was you'd
4 have a -- you always have a lot of these matters under
5 inquiry being assigned to people, and sometimes they get
6 worked on and sometimes they don't. I imagine somebody
7 looked at it and, you know -- in essence, all along, we knew
8 that the only way you're going to be able to do anything with
9 regard to Stanford is if you get subpoena power, and at that
10 point in time, I don't think we had enough facts to where we
11 could have sent up a memo to the commission to get the order
12 that would have allowed us to issue subpoenas.

13 Q Was there concern in enforcement about making sure
14 you have enough information before you go to the commission?

15 A Sure, there always is that concern. Over a period
16 of time when I was here, it got a lot worse. You used to be
17 able to go up and get the orders a lot easier than you can --
18 you could when I left, and I suspect it's even worse now.

19 Q Okay. So back in 1997, '98, it was actually easier
20 than in later years to get an order from the commission?

21 A Yes.

22 (b)(6), (b)(7)c : What do you understand the standard to
23 be to get a formal order at that time?

24 THE WITNESS: I don't know that I understand the
25 standard or ever understood the standard. It depends on --

1 you've got so many layers between what you do in Fort Worth
2 before it ever gets to the commission. It's got to go
3 through what was called BROA at that time. I don't know what
4 it's called now. And you have a lot of people
5 second-guessing everything, and so, you know, what we thought
6 were good reasons weren't necessarily accepted by anybody
7 else.

8 (b)(6), (b)(7)c : Is that because the commission was
9 known to not accept requests for formal orders, or was it
10 BROA and the other layers that you mentioned?

11 A It's a combination of both. I had one case
12 involving a broker-dealer when our chairman at that point in
13 time was a former head of that broker-dealer. I was one of
14 the few people that ever got a formal order request that got
15 that far, got to the commission to have it turned down, quite
16 simply because it was that broker-dealer. At least that's my
17 opinion.

18 Q Was there a feeling in enforcement during that time
19 period that if you were going to open an investigation and
20 try to get a formal order, you had to have a real kind of
21 slam dunk, airtight case to get through all these layers of
22 bureaucracy?

23 A No, I don't think so, but I think you had to have
24 some evidence. And in this case, the Stanford case, the
25 evidence you got is we can't get the records. That's

1 referrals?

2 THE WITNESS: No.

3 BY MR. KOTZ:

4 Q Just judging from the time that the MUI was open,
5 May to August, would you say it was unlikely that a lot of
6 work was done in such a short time period?

7 A Well, yes, I would say it's unlikely that much was
8 done at all. Frequently you had MUIs that were opened that
9 nothing was ever done on. You know, they -- it was a
10 function of if somebody was working on a particular case, you
11 know, they are probably concentrating on that. I do know
12 after I left enforcement, Spence Barasch was putting a lot
13 more pressure on people to produce numbers. So anything that
14 didn't appear that is likely going to produce a number in a
15 very short period of time got pretty short shrift.

16 Q And the cases that you would use to produce numbers
17 might be the more easier cases?

18 A That's right. They might be quick hits.

19 Q And Stanford was clearly not a quick hit?

20 A No, it was not going to be a quick hit. It was
21 going to be a dogfight.

22 (b)(6), (b)(7)c : What was your understanding as to why
23 Spence Barasch would be putting on pressure to produce
24 numbers, toward what end?

25 THE WITNESS: Well, it's not just him. At that

1 time, Hal Degenhardt was the director here, the person in
2 charge. And he came from a big law firm, and he quickly
3 decided the way to impress people was to come up with lots of
4 numbers. And Spence, of course, was part of that.

5 BY MR. KOTZ:

6 Q And, I mean, were there people, say, in Washington
7 who were impressed by lots of numbers?

8 A Sure. There are people who were impressed, and
9 there were people who were unimpressed by it because they
10 looked at the quality of the cases and -- what was the
11 woman's name that was in charge? Linda Thompson. She was
12 definitely not impressed with what was going on in Fort
13 Worth. On the other hand, (b)(6), (b)(7)c --

14 Q (b)(6), (b)(7)c ?

15 A -- (b)(6), (b)(7)c was very close with Degenhardt and
16 Spence. So since he was in charge, they were doing quite
17 well.

18 Q Okay. So the fact that there was a focus on
19 numbers might have been a reason why a case like Stanford,
20 which was clearly not a quick hit, would not be prioritized
21 as much as a case that was more of a quick hit?

22 A Sure, absolutely.

23 (b)(6), (b)(7)c : How did Spence Barasch and Hal
24 Degenhardt exert this pressure, if you will? How would they
25 communicate this concept?

1 THE WITNESS: Well, the way it was done was that
2 Degenhardt allowed Spence to do whatever he wanted with
3 regard to people. The end result of it was that he ran off
4 (b)(6), (b)(7)c . He ran off some other very good attorneys.
5 Quite frankly, in my opinion, he was allowed to run roughshod
6 over people. It was a very -- he had a very tense situation
7 in enforcement, particularly if you were female because they
8 were the ones that seemed to get the most attention.

9 BY MR. KOTZ:

10 Q And that was negative attention?

11 A Yes.

12 Q And so in terms of kind of how he dealt with them
13 on a personal basis?

14 A Yes.

15 Q Is there any specific example that comes to mind?

16 A Probably the best example would have been (b)(6), (b)(7)c
17 (b)(6), (b)(7)c , who was one of the female attorneys at that point in
18 time. After (b)(6), (b)(7)c -- well, I think she was -- she was a
19 branch chief (b)(6), (b)(7)c , and then (b)(6), (b)(7)c worked -- all
20 of them at one time were all in the same branch. For some
21 reason -- and I don't know what the reason was -- Spence got
22 very down on (b)(6), (b)(7)c . He wouldn't -- I mean, he literally
23 would not speak to her. She took some time off to (b)(6), (b)(7)c
24 (b)(6), (b)(7)c , and while she -- I think what it was.
25 Anyway, while she was off (b)(6), (b)(7)c , he

1 decided that he was going to get rid of her. He wrote a
2 really nasty personnel report, you know, the rating for her.

3 Q Right.

4 A And when she got it, she finally went to
5 Degenhardt, and he rewrote it, in essence. But you had a
6 situation where you've got the guy that's in charge here that
7 won't even talk to you and is bad-mouthing you to everybody
8 else around, and so she ended up leaving rather than
9 fighting.

10 Q And did you find (b)(6), (b)(7)c to be good?

11 A (b)(6), (b)(7)c is excellent.

12 Q So there was no reason that you could see why
13 Barasch had such a problem with her?

14 A Anybody that -- that usually included the female
15 attorneys. Anybody that complained about Spence or commented
16 about Spence in a derogatory manner kind of went on like a
17 Nixon's enemy list. That's what happened. And you ended up
18 losing (b)(6), (b)(7)c, losing (b)(6), (b)(7)c -- can't think of her last
19 name at the moment -- (b)(6), (b)(7)c. And all of them -- virtually
20 all of them that left were female attorneys.

21 (b)(6), (b)(7)c: And as to the aspect of Spence
22 Barasch's interest in getting the numbers up, how would he
23 communicate that to his staff?

24 THE WITNESS: I think he was pretty upfront about
25 it, you know. I want numbers. I want these things done

1 quick. You know, as I say, I was in regulation, so it wasn't
2 my concern. Every now and then, I would be exposed to
3 something that had some connection with regulation.

4 I remember there was one case that I read the
5 enforcement -- the memorandum to the commission seeking a
6 formal order, and in my personal opinion, I thought some of
7 the facts that were put in it were just totally fabricated.
8 I knew what had happened, and I guess you could -- you could
9 spin them a certain way, but I thought this was getting out
10 of the realm of spinning into just fiction, you know. I
11 pointed that out to Degenhardt, you know. Nothing happened,
12 not my business.

13 (b)(6), (b)(7)c : What matter was that?

14 THE WITNESS: I don't remember now. That was a
15 long time ago. And Spence and I -- Spence was a branch chief
16 under me and an attorney before that. And we kind of had a
17 long history from the standpoint of he's a very smart guy,
18 he's very capable, but he thinks he knows it all.

19 There was one particular case that I had assigned
20 to one of the female attorneys, to Victoria Prescott, who was
21 in Spence's branch at the time. He told her not to work on
22 it, so she never worked on it because he told her not to.
23 Well, a year after that, it turns out to be a major Ponzi
24 scheme being run by a guy down in -- I think it was in
25 Louisiana. It ended up being, you know, a pretty -- at that

1 time a pretty high-profile case, you know.

2 (b)(6), (b)(7)c : What matter was that, if you recall?

3 THE WITNESS: I can't think of the name of it.

4 (b)(6), (b)(7)c could tell you in a minute. It was just a thing
5 -- you know, I found out about it, you know, when I was
6 reviewing cases later on talking to Victoria, why wasn't
7 anything done about it. Spence told me not to.

8 BY MR. KOTZ:

9 Q And the reason Spence told her not to was it didn't
10 fit in --

11 A He decided that -- he decided that it wasn't --
12 this was a case where it involved insurance, and while
13 presumably they were selling insurance, it was really a Ponzi
14 scheme. But it was disguised as selling something else.

15 What happened was the case got transferred from
16 here to our Houston office at that time. They got on it, and
17 lo and behold, they did a little research and came up with
18 the idea that what they were selling was not an insurance
19 contract but really a security. So that's when it got
20 serious and they got into it, and it became one of these
21 where you rush to the courthouse to get a temporary
22 injunction and restraining order and all the rest.

23 Q So that case, that case that turned out to be a
24 Ponzi scheme, didn't fit into Spence's view of what were the
25 cases he wanted to bring at that time?

1 A At that time. Well, the issue was whether or not
2 this was a security because, as I say, they were disguising
3 it as an insurance contract. And his -- I'm assuming. I
4 never talked to him about this particular one other than to
5 point out to him that, you know, if I was going to assign a
6 case to somebody, I didn't want him changing whether they
7 were going to work on it or not.

8 Q Right.

9 A But the issue was there, and since they didn't do
10 much research into the issue, his -- (b)(5), (b)(7)a
11 (b)(5), (b)(7)a . Again, you get back to
12 the number aspect, you know. If you got a problem with
13 determining (b)(5), (b)(7)a
14 (b)(5), (b)(7)a , then it's going to be harder to do. It's not
15 going to be a quick hit. You're not going to get a number
16 quicker.

17 Q And so that would not be a case he would want to
18 bring?

19 A That's about it.

20 (b)(6), (b)(7)c : Was that the (b)(5), (b)(7)a case by any
21 chance? Does that ring a bell?

22 THE WITNESS: That doesn't sound familiar.

23 (b)(6), (b)(7)c : Was it (b)(6), (b)(7)c ?

24 THE WITNESS: No, I don't think so. It was down in
25 Ruston, Louisiana, Ruston or the one where Grambling is,

1 because it was in the cycle that we had to do.

2 Q Okay. Was it somewhat frustrating for the
3 examiners to keep doing exams and finding the same potential
4 fraud but nothing changing other than the fraud growing?

5 A Yes, you could say that.

6 Q Okay.

7 A But, you know, as an examiner, you've got little
8 control over what's done on the enforcement side unless you
9 find the smoking gun.

10 Q Right. If you look on Page 15, the last page of
11 this document, Exhibit 7, it says, "The issue concerning the
12 possible unregistered public offering of the CDs has been
13 referred to enforcement, which has decided to refer the
14 matter to the Texas State Securities Board."

15 A Uh-huh.

16 Q Do you remember -- do you remember that decision
17 that it was referred to the Texas State Securities Board?

18 A I don't remember why the decision was made. I can
19 tell you what I think the reason was.

20 Q Okay.

21 A Because we talked about it with enforcement. They
22 weren't going to do anything, so we sent it over to the Texas
23 because Texas sometimes is -- it's much more easy for them to
24 get subpoena power. They don't have this hideous review
25 process that the commission has to do it.

1 actually, that I just showed you, and then there was another
2 complaint I can show you dated September 1, 2003, from an
3 insider to the NASD Complaint Center, which we'll mark as
4 Exhibit 11.

5 (SEC Exhibit No. 11 was marked for
6 identification.)

7 BY MR. KOTZ:

8 Q And this complaint, Exhibit 11, says, "Stanford
9 Financial is the subject of a lingering corporate fraud
10 scandal perpetuated as a massive Ponzi scheme that will
11 destroy the life savings of many, damage the reputation of
12 all associated parties, ridicule securities and banking
13 authorities, and shame the United States of America."

14 So there were three actually different complaints
15 that were brought against Stanford.

16 A Yeah. As I recall, this was an anonymous
17 complaint, and since you can't find out who is doing it, it
18 didn't exactly enlighten us as to any more information than
19 we already had.

20 Q Okay. And what about the (b)(6), (b)(7)c from (b)(6), (b)(7)c,
21 (b)(6), (b)(7)c, his complaint? Was there an effort to
22 contact him to get more information?

23 A I know we worked with the people on (b)(6), (b)(7)c. We
24 had people go down there. In fact, (b)(6), (b)(7)c went down
25 there to San Antonio to look at the records and actually got

1 before with regard to enforcement, you felt it was important
2 to make a renewed effort?

3 A Well, you know, it just was not economically
4 feasible for them to be doing what they said they were doing.
5 You know, you got a situation where they are promising to pay
6 a rate of return that was higher than you would get from the
7 stock market, plus you got the situation all of the different
8 salesmen were getting like 3-percent override per year.
9 That's just not economically feasible.

10 Q Right. It had to be some kind of fraud?

11 A Yeah.

12 Q So there was an effort, I guess, to bring Victoria
13 Prescott in and have her draft a formal written referral. Do
14 you remember that?

15 A Well, Victoria at that point in time had been
16 transferred, I think, out of enforcement to where she was now
17 sort of the counsel for the broker-dealer --

18 Q Right.

19 A -- division.

20 Q And do you remember that she was then tasked with
21 drafting this referral in writing?

22 A Yeah, yeah.

23 Q And do you remember the reason why it was decided
24 to put this referral kind of more tangibly, substantively in
25 writing?

1 people.

2 Q So in some ways, Cohen was somewhat like Spence
3 Barasch?

4 A Very much. He's Spence's right-hand guy as far as
5 these things are concerned. He's the one that brought him
6 in, and he and Degenhardt pretty much thought Jeff was --
7 when Spence left, if Degenhardt had had his way, Jeff would
8 have been in charge, not Kit Addleman. Degenhardt hated Kit,
9 and so did Spence.

10 Q How come they hated Kit?

11 A Because she fought back. She was not a woman that
12 you could browbeat. If you browbeat or tried to browbeat
13 Kit, she'd get you, and she did. She's the one that pretty
14 much led to the removal of (b)(6), (b)(7)c as the head of this
15 office years before that.

16 Q And was Kit not so enamored with the numbers like
17 Spence and Degenhardt?

18 A No. Kit was much more concerned about the kind of
19 cases you're bringing and why you're bringing cases. It
20 wasn't that she's opposed to bringing easy cases. Nobody is
21 opposed to that.

22 Q Right.

23 A But she wouldn't approach it from the standpoint of
24 we're not going to do this because it's going to take some
25 work.

1 Q Right. So that's why she would have been the
2 person who was -- who made the eventual decision to go
3 forward with the Stanford case?

4 A Well, that, plus pressure builds over the years.
5 This thing keeps getting bigger and bigger and bigger and
6 bigger.

7 Q Right. So you think there was a sense -- you
8 indicated that one of the reasons that the memo was drafted
9 from your unit, the exam unit, was you wanted to cover
10 yourself. Do you think that that might have been a point in
11 time with Kit Addleman because this had grown so much that
12 the SEC had to start doing something?

13 A Yes and no. I'd be more inclined to give Kit the
14 benefit of the doubt that she really thought this was
15 something that ought to be done. I will say that Kit had
16 handled -- while she was here in this office as a branch
17 chief, she had handled a lot of the more difficult cases that
18 had been brought and managed to find a way to get it done.

19 Q She was more comfortable with the idea that even
20 though it's a difficult case, we're going to give it our best
21 shot?

22 A That's right. She's less concerned with numbers.

23 Q And then were you aware that in 2009, the SEC did
24 finally bring an action against Stanford?

25 A Oh, yeah.

1 Q And then very shortly thereafter, the Ponzi scheme
2 collapsed?

3 A When (b)(6), (b)(7)c got in there and found some records,
4 that makes a lot of difference.

5 Q Right. So do you think kind of looking back that
6 if perhaps some of the investigative steps that were taken in
7 the late 2000s were taken years earlier and then a complaint
8 brought significantly earlier, that that might have acted to
9 uncover the Ponzi scheme before it grew to the point it grew?

10 A Oh, I'm sure if we had been able -- I don't know
11 about investigative steps. It's always been -- you know, for
12 years I said the only way you're going to get this done is to
13 get subpoena power and subpoena the records. If we go into
14 court and they fight a subpoena and we lose, well, we've done
15 everything we can do. But we ought to do that.

16 Q If that effort had been done instead of in 2006, in
17 1996, it would have saved a lot of the growth of the Ponzi
18 scheme?

19 A I would think so. It was obvious for years that it
20 was a Ponzi scheme. You never knew where the money was
21 going. Nobody knew where the money was going. The only
22 person that knew where the money was going was Allen Stanford
23 or people that were in cahoots with him.

24 (b)(6), (b)(7)c : I want to be clear on your reference
25 to getting subpoena power and what it is you were advocating

1 nothing there?

2 A No. I think if Secore did tell him that, that
3 wouldn't necessarily be a reason for doing it. And
4 generally, we didn't close MUIs because an attorney
5 representing the person comes in and says my guy is okay.

6 Q Right. Obviously the attorney representing the
7 person is always going to say that.

8 A That's the way I look at it, yeah. You don't get
9 many that come in and say I want to plead guilty.

10 Q Right, or they don't get hired again if they do
11 that.

12 A If they do, that guy is gone.

13 (b)(6), (b)(7)c : Just follow up on that, I certainly
14 hear you, and generally that doesn't happen and shouldn't
15 happen. But, I mean, in this specific instance, do you think
16 it's plausible that Secore could have wielded a little extra
17 influence over Barasch's decision than any other defense
18 counsel?

19 THE WITNESS: No, I don't think so. If they were
20 friends, they weren't that close. There weren't many people
21 who were really close with Spence. Secore was from another
22 time, you know, different attitude entirely.

23 (b)(6), (b)(7)c : You mentioned earlier about Ms.
24 Prescott being -- coming over to be an attorney adviser on
25 the BD side at regulation. I just wanted a clarification.

1 Is her position -- and back then or now, maybe if it's
2 changed -- just to be an adviser to the BD side of
3 regulation, or does she kind of cover both BD and IA issues?

4 THE WITNESS: Of course, they've changed things
5 around here since then, but when she came over, it was just
6 in the BD side. It wasn't on the investment adviser side.

7 (b)(6), (b)(7)c : Was there a counterpart for the
8 investment adviser staff?

9 THE WITNESS: No, they never would authorize that.
10 It was kind of a funny deal from the standpoint of -- (b)(6), (b)(7)c

11 (b)(6), (b)(7)c

12
13 (b)(6), (b)(7)c So when they posted that position, there were
14 various people who applied.

15 (b)(6), (b)(7)c

16 (b)(6), (b)(7)c But there was a
17 three-person board doing the interviewing. I was one of
18 them. Degenhardt was the other one, and (b)(6), (b)(7)c, I
19 think, was the third one. (b)(6), (b)(7)c

20 (b)(6), (b)(7)c

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24 (b)(6), (b)(7)c

25 BY MR. KOTZ:

EXHIBIT 21

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
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DATE: Wednesday, January 27, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 4:14 p.m.

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

1 APPEARANCES:

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14 On behalf of the Witness:

15 (b)(6), (b)(7)c, PRO SE

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1 Q Okay. So what year did you start at the Fort Worth
2 office?

3 A (b)(6), (b)(7)c

4 Q Okay. So (b)(6), (b)(7)c you worked in the Fort Worth
5 office. And what was your first position in the Fort Worth
6 office?

7 A Branch chief.

8 Q And that was in the full disclosure?

9 A Full disclosure.

10 Q And what did you do as a branch chief in the full
11 disclosure?

12 A That was processing S-18s and SB-1s and SB-2s and
13 Reg A's.

14 Q Okay. And then how long did you serve as a branch
15 chief?

16 A That was -- that was from (b)(6), (b)(7)c to about (b)(6), (b)(7)c when
17 they rolled up the program back to headquarters, and then I
18 was a senior counsel regulation from there on out.

19 Q Senior counsel in the regulation unit from (b)(6), (b)(7)c
20 until --

21 A -- retirement, yeah.

22 Q And what year did you retire?

23 A January (b)(6), (b)(7)c

24 Q Okay. What were your duties as senior counsel?

25 A Well, it varied a lot. I did a lot of enforcement

1 stuff. I reviewed exams, just about, you know, everything
2 that came along. I participated in some exams, some NASD
3 exams and that sort of thing. I -- of course, I was the
4 ethics counsel for the office, few other things. And I
5 think probably what you're interested in is the fact that
6 when (b)(6), (b)(7)c, who was the consumer affairs specialist,
7 was out sick or whatever, I was on hand to take some of the
8 calls, some of the complaint calls. If it didn't sound
9 strictly routine, the receptionist was instructed to, you
10 know -- if it were a credible sounding communication, to send
11 it back to me.

12 Q Okay. And what time period was that?

13 A That probably existed from '95 -- well, maybe even
14 before '95 because when -- I had that even when I was a full
15 disclosure branch chief, because we were always around. The
16 two attorneys and the accountant that worked for me, we were
17 the people that were always around.

18 Q All right.

19 A And historically, I'd always -- in the Washington
20 regional office, I was in charge of the complaint function,
21 the public affairs function.

22 Q So that continued until (b)(6), (b)(7)c ?

23 A Uh-huh.

24 Q Yes?

25 A Yeah. I wasn't strictly in charge of (b)(6), (b)(7)c

1 this.

2 A That ain't a bad summary.

3 Q Yeah, did a nice job. Do you have any recollection
4 of --

5 A -- writing this? No.

6 Q What about just generally the conversation with
7 this woman?

8 A Based on this, yes. Yeah.

9 Q And did you seem -- do you remember if she seemed
10 to be credible in your eyes when you talked to her? You
11 probably talked to a lot of complainants.

12 A I was thinking about that in the last few months,
13 and I even punched up her interview with Fox on the internet,
14 and she was very sincere. In fact, I think she was crying a
15 good part of the conversation, which added credibility in my
16 mind.

17 Q But do you think from back when you talked to her,
18 based on your summary, that you seem to have believed that
19 she was credible?

20 A Yes.

21 Q Okay. And then you also say, "In addition, it's
22 reasonable to conclude at this point that the Stanford Group
23 is at least a co-issuer on these CDs." And you say, "Based
24 on our last meeting last week and my conversation with this
25 woman, I have little doubt that these CDs are, in fact,

EXHIBIT 22

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 19
PAGES: 1 through 58
PLACE: Haynes and Boone, LLP
 201 Main Street
 Fort Worth, Texas
DATE: Thursday, January 28, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 9:12 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5



6

7

8 Securities and Exchange Commission

9 Office of Inspector General

10 100 F Street, N.E

11 Washington, D.C. 20549

12 (202) 551-6037

13

14 On behalf of the Witness:

15 KATHERINE SMITH ADDLEMAN, PRO SE

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1 A Supervision of the three assistant director groups
2 as well as the trial unit.

3 Q Okay. Who were the three assistant directors?

4 A (b)(6), (b)(7)c, (b)(6), (b)(7)c and Jeff Cohen.

5 Q Okay. How long did you serve in that position
6 starting in the Fall of 2005 until?

7 A Until the Summer of 2007.

8 Q And then you went --

9 A And then I became the Regional Director for the
10 Atlanta office.

11 Q How long did you serve in that position?

12 A About two years.

13 Q And then you came back --

14 A Till October of 2009 when I left to join the law
15 firm of Haynes and Boone.

16 Q Here in Fort Worth?

17 A Here in -- well, I'm in the Dallas office.

18 Q Dallas. Okay. When did you first learn of the
19 existence of Allen Stanford, the Stanford Group or Stanford
20 International Bank?

21 A Sometime shortly after I joined the Fort Worth
22 office as the associate for enforcement. During the period
23 of time I was a Branch Chief I don't know that I had any
24 knowledge of the entity or --

25 Q So that was in the Fall of 2005 the first time you

1 A Unfortunately, I've gotten to the point where I
2 need readers.

3 Q And so what do you remember was -- what happened?
4 I mean, were arguments made or, you know, you were, you know,
5 relatively new there. I guess there was kind of an
6 inner-office dispute about this case. So what do you
7 remember before we get more documents? What do you remember
8 just generally?

9 A I don't recall that it rose to anything I would
10 have called a dispute.

11 Q Okay.

12 A Probably just a disagreement. The enforcement
13 side, as I recall, was having a difficult time getting their
14 arms around whether it was a fraud.

15 There were potentially some registration violations
16 that folks like (b)(6), (b)(7)c and Jeff would point out, but given
17 the climate of the Commission at the time it was questionable
18 whether the Commission would have had an appetite to bring
19 just a Section 5 case and whether a formal order even made
20 sense in that situation.

21 And I don't recall getting involved until the
22 discussions about whether to move it forward or not. I don't
23 remember having a meeting, for example, before that at which
24 I participated with Jeff and (b)(6), (b)(7)c. That doesn't say I
25 didn't have one, because we did try to have meetings on every

1 case about every month or so.

2 Q Right.

3 A But chances are given the timing of this it was
4 right about the time of my arrival in that office or right
5 around that time.

6 Q Tell me a little more about what you said about the
7 culture at the Commission.

8 A Oh, just the commissioners, there were several of
9 them who had feelings about, you know, sort of getting off
10 the backs of technical violations and dealing more with just
11 straight-up fraud.

12 Q Okay.

13 A Investor protection being most important.
14 Registration is something that if brought to somebody's
15 attention should be cured, can't we handle it without an
16 enforcement action would be the question that was asked. And
17 there were commissioners who had pretty strong views in that
18 regard, so it was rare to bring a Section 5 stand-alone case.
19 That isn't to say we didn't do it. We did in the right
20 circumstances but not all the time.

21 Q So would it be a case where there would be a
22 reluctance, say, on the part of a regional office to move
23 that case forward to the point of bringing it up to the
24 Commission if they thought there might be disagreement, even
25 if you potentially could get it through the Commission, but

1 if there was going to be potentially an issue before the
2 Commission there might be reluctance to even moving the case
3 to that level?

4 A I think it was more of a resource issue than that.

5 Q Okay.

6 A It was more about the issue of does it make sense
7 to do a case that's clearly just -- or appears to be, I
8 wouldn't say it's clearly, it appeared at that time to be all
9 that the SEC could prove would be a registration violation,
10 does it make sense for us to use scarce resources for that
11 case versus something else.

12 Q Okay. Were you aware at this point that there had
13 been numerous examinations of Stanford going all the way back
14 to 1997?

15 A I became aware, I believe, at this time that there
16 had been some prior examinations.

17 Q Okay. And I mean did you understand that at least
18 in the view of the examiners there was a fraud going on,
19 potentially a ponzi scheme? And, in fact, in the 1997 exam
20 the conclusion was that this was a potential ponzi scheme?

21 A I'm not aware that that was the result of a '97
22 exam. I don't know that anybody ever brought that to my
23 attention.

24 Q Okay.

25 A However, I can tell you that one of my questions

1 was how could they generate these kinds of returns. It was
2 something that needed more inquiry and the question was how
3 do you do it when you're getting no cooperation.

4 Q Well, would one way to do it, would that be to
5 bring a Section 5 or other case based on registration or
6 other requirements like, say, suitability in order to get
7 Stanford into court and then use that as an avenue to get
8 more information about the potential fraud?

9 A Sure.

10 Q Okay.

11 A And it's something that we talked about.

12 Q So, I mean, this wouldn't be a case where, you
13 know, all you have is a Section 5. This would be a case
14 where you may believe that there's an ongoing very large
15 fraud and you use the Section 5 as a way to seek enforcement
16 of those particular violations but also to seek more
17 information to uncover a, you know, a massive fraud?

18 A Well, I think you're overstating what we understood
19 at the time and I wouldn't say that -- I mean, other people
20 can speak for themselves, but it was never presented to me as
21 this is a fraud. We just can't prove it.

22 Q Okay.

23 A It was presented as there is the potential here
24 that it is a fraud.

25 Q Okay.

1 A And how do we get there.

2 Q Okay.

3 A And, yes, the discussion was had about whether it
4 made sense to bring a Section 5 case and try and address in a
5 court setting as opposed to a Commission investigation
6 getting behind those documents.

7 Q Okay.

8 A And there are a lot of legal discussions about the
9 issues that we would have in dealing with the registration
10 case itself.

11 Q Okay. And so what do you remember about those
12 discussions? Was there any particular individuals with a
13 view and then a counter-view or how was it discussed?

14 A I do recall Jeff Cohen having the strongest view
15 that

16 (b)(5), (b)(7)a

17

18 It was purportedly a CD with Antiguan bank
19 regulators. There's a lot of case law out there with respect
20 to.

21 (b)(5), (b)(7)a

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24 So we had a lot of discussions about that, whether

25 -- (b)(5), (b)(7)a, whether we could get

1 into court on that and what the prospects would be about
2 winning even on the registration claim.

3 Q Okay. Do you remember (b)(6), (b)(7)c, what her
4 perspective was on it?

5 A I don't recall that she had a particular view as to
6 we should or shouldn't do it.

7 Q Okay.

8 A (b)(6), (b)(7)c was working for Jeff Cohen at the time and
9 his direction was pretty significant in her decision-making,
10 I believe.

11 MR. KOTZ: Let me show you a couple more documents.
12 This is an e-mail from Hugh Wright to you dated 10/27/05 at
13 4:42 p.m. I'm going to mark this as Exhibit 3.

14 (SEC Exhibit No. 3 was marked for
15 identification.)

16 MR. KOTZ: And then there's another document, which
17 is an e-mail dated 10/28/05 from Hugh Wright to James
18 Clarkson, and that one, we'll mark as Exhibit 4.

19 (SEC Exhibit No. 4 was marked for
20 identification.)

21 BY MR. KOTZ:

22 Q They kind of go together, so I'll show them to you
23 at the same time. If you look at Exhibit 3, looks like Jim
24 Clarkson was also involved in the discussions.

25 A Right.

1 Q Do you remember that?

2 A I do.

3 Q And what was his role at that time?

4 A He was the Acting Regional Director. Hal
5 Degenhardt had left and prior to the appointment of a new
6 regional office head they decided to put Jim Clarkson in as
7 an acting.

8 Q Okay. And it looks just like from this e-mail
9 string, Exhibit 3, that there was just discussion about
10 having conversations. If you see in here there's an e-mail
11 from you to Hugh Wright, Thursday, October 27, 2005, 2:59
12 p.m., I was planning on talking with Jim about what issues I
13 know about. I would like to talk to you first.

14 A Wait, wait. Which exhibit number are you on? 3?

15 Q Sorry. Yeah, 3.

16 A Okay.

17 Q So in Exhibit 3 you say you want to talk to Hugh
18 about (b)(6), (b)(7)c . And then if --
19 once you get a chance to read that, if you look at Exhibit 4,
20 there's some e-mail communication back and forth that
21 followed that from Hugh Wright and Jim Clarkson relating to
22 concerns about (b)(6), (b)(7)c .

23 There's a reference here about (b)(6), (b)(7)c

24 (b)(6), (b)(7)c

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(b)(6), (b)(7)c

And if you look at the top of Exhibit 4 there's a

reference to (b)(6), (b)(7)c

(b)(6), (b)(7)c

A Give me a chance to read this one.

Q Sure.

A Okay.

Q Okay. And so is it fair to say that in connection with this disagreement in the office about whether to go forward with the Stanford case you had Jeff Cohen on one side and Julie Preuitt on the other?

A Yes.

Q Okay. And so my question is: It seems as though from these e-mails that there was some kind of (b)(6), (b)(7)c (b)(6), (b)(7)c that was going on at the same time of this disagreement. Could you describe for me what was the concern about (b)(6), (b)(7)c ?

A Yes. (b)(6), (b)(7)c

(b)(6), (b)(7)c

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(b)(6), (b)(7)c
(b)(6), (b)(7)c

10 Q Okay. And so is it fair to say he didn't have a
11 good relationship with Julie Preuitt?

12 A He had a terrible relationship with Julie. Now,

13 (b)(6), (b)(7)c
14

15 (b)(6), (b)(7)c, there -- they have a lot in common, which is
16 perhaps why they had so much trouble working together.

17 Q What about with respect to Jeff Cohen and his
18 subordinates?

19 A He had a terrible relationship with the Branch
20 Chief on this matter, (b)(6), (b)(7)c, at the time. (b)(6), (b)(7)c was
21 actually (b)(6), (b)(7)c supervisor, as I recall.

22 THE WITNESS: Am I saying -- do you know that to be
23 wrong? Stop me if I'm saying something that's wrong.

24 (b)(6), (b)(7)c: I'm sorry if I gave away -- if you
25 recall that (b)(6), (b)(7)c at that time was (b)(6), (b)(7)c ---

1 and basically everybody -- I think even people who didn't
2 want to go forward with the investigation told us that they
3 were sure that this was a fraud or a ponzi scheme. It was
4 only a question of how to go into court and prove it. We
5 haven't heard anybody who said, I don't believe so far, that
6 they weren't actually sure that it was a fraud.

7 You know, I mean, Hugh Wright, I guess, said to us
8 yesterday that he knew this was a ponzi scheme from back in
9 the 1990's. It was just a question of getting enforcement to
10 take the necessary action and having them go forward with an
11 investigation. Is that consistent with what you know?

12 A Yes. Although the litigator in me -- I mean, the
13 enforcement lawyer that I've been for 21 years of my 24 years
14 as a lawyer say that while I can say in my gut I know
15 something to be true. I can't say it is a ponzi scheme until
16 I've seen the documents, right?

17 Q Right.

18 A I can speculate all day long.

19 Q Right. I mean, you may not be able to even say
20 that today that Allen Stanford has been running a ponzi
21 scheme. He hasn't been convicted of anything.

22 A True enough, although additional documents have
23 come to light, which I think are persuasive and make an
24 evidentiary basis for that statement. Whereas we had no
25 evidentiary basis for this. We had information which

1 demonstrated that it was likely to be a ponzi scheme and
2 absolutely we insisted that it move forward.

3 Q Right.

4 A I mean, if you'll -- I'm sure folks know that we
5 did not close the investigation. We did move it forward and
6 we did look for avenues to try and determine the best way to
7 get evidence.

8 Q Do you know what specific documents you were
9 referring to that somebody has now that was more evidentiary
10 basis than was in 2005?

11 A Well, it was my understanding that they obtained
12 additional records, but as you know I was not in the Fort
13 Worth office at the time.

14 Q Okay.

15 A So I couldn't tell you what those are.

16 MR. KOTZ: Let me show you another document. This
17 is a memorandum dated November 14th, 2005 from Jeff Cohen to
18 Jim Clarkson and you, and we're going to mark this as Exhibit
19 6.

20 (SEC Exhibit No. 6 was marked for
21 identification.)

22 THE WITNESS: Do I have your copy? Or is that on
23 the original?

24 BY MR. KOTZ:

25 Q I think it's on the original.

1 A Okay. I do recognize this document, yes.

2 Q Okay. Do you remember why there were two
3 documents? There's a memo from Julie Preuitt on November 7th
4 and a week later a memo from Jeff Cohen.

5 A I don't remember. I could only speculate that it's
6 Jeff's attempt to respond to the memo that Julie wrote.

7 Q Okay. And an interesting thing about this memo
8 from Jeff Cohen, it does conclude (b)(5), (b)(7)a

9 (b)(5), (b)(7)a

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14 A I think that -- I was pretty direct and I believe
15 Jim Clarkson was as well that we were going to continue to do
16 what we could to obtain information.

17 Q And so what was the reason that you and Mr.
18 Clarkson decided to essentially not close the investigation
19 but have it move forward of Stanford?

20 A The information that you've noted and that was
21 provided in the e-mails, the memo from Julie, all of them
22 demonstrate the possibility of a ponzi scheme and a pretty
23 significantly-sized one. So although there are some hurdles,
24 our belief was we needed to move the investigation forward
25 and if possible get into court.

1 Q Okay. Even though there were hurdles, there might
2 be difficulties, you made the decision that it made sense to
3 go forward?

4 A Yes.

5 Q Okay. And we've had some testimony about kind of
6 the culture in the office at that time and I wanted to see
7 what your thoughts on it were.

8 Basically what folks have told us was that there
9 were points in time where there was some internal pressure
10 within the Fort Worth office to generate numbers, generate
11 number of cases. And there was also that feeling that the
12 Commission was maybe more receptive to clear-cut cases, cases
13 where you have clear victims already losing money, and that
14 there were several schools of thought in the office.

15 And Jeff Cohen together with others had the school
16 of thought that if we're going to bring a case, we should
17 bring a case that is more clear-cut, that has potential
18 victims, it's easier to get through the Commission and we
19 generate our numbers.

20 And that your perspective was very different in
21 that your perspective was, you know, obviously it's important
22 to have numbers, but it's also important to have substantial
23 cases and even cases that are complicated or difficult or
24 that may -- may involve some work to get through the
25 Commission, if they're important, we should go forward and

1 investigate them and try to break them. Is that accurate?

2 A I think it is. I don't know whether I'm agreeing
3 with something that you think is a good thing or a bad thing.

4 Q I think it's a very good thing.

5 A My emphasis was less on numbers than the past sort
6 of administration, if you would call it, in that office had
7 been.

8 (b)(6), (b)(7)c : Is that administration, Spence
9 Barasch, is that what you mean --

10 THE WITNESS: Spence and Hal Degenhardt. Uh-huh.
11 Where people were of the belief that the numbers were the
12 only thing that mattered to the point where they were doing
13 some silly things like breaking cases into pieces just having
14 -- so you could have -- file two complaints instead of one or
15 have two administrative proceedings instead of one, some of
16 those kinds of things.

17 And there needed to be some, in my opinion, reality
18 brought back to what the enforcement program is supposed to
19 be. And while numbers are a driver that you report to
20 Congress and you've got to have good numbers, otherwise
21 you're looking like you're failing your job if you're not
22 bringing any cases, those cases have to be substantial,
23 meaningful and right.

24 So, yes, I think there's definitely a culture shift
25 and Jeff had a little trouble with some of that I will admit.

1 BY MR. KOTZ:

2 Q And so Jeff was more in the Spence Barasch/Hal
3 Degenhardt camp in terms of bringing the easier cases to get
4 numbers that you can easily get through the Commission rather
5 than maybe take on an important case like Stanford?

6 A Yes. He had some tougher cases. I won't say that
7 he only had easy things, but in a way that he could sort of
8 charge ahead on the things that he knew were going to be
9 fruitful and give rise to a number as opposed to a case that
10 didn't have that degree of certainty, if you will, would be a
11 factor in his analysis.

12 Q And how did Jim Clarkson feel about that issue?

13 A You know, I don't recall having a lot of
14 discussions one-on-one with Jim about that --

15 Q Okay.

16 A -- or even in a larger setting.

17 I had conversations with Linda Thompson, (b)(6), (b)(7)c
18 (b)(6), (b)(7)c, about their views of enforcement, the perspective and
19 the numbers game, if you will, and their desire to get the
20 Fort Worth office back to not just doing lots and lots of
21 stuff, but stuff that meant something.

22 Q Okay. And so that was something that was conveyed
23 by (b)(6), (b)(7)c and Linda Thompson?

24 A Linda Thompson, yeah.

25 Q That there was too much of an emphasis on numbers

1 do seem to recall that (b)(6), (b)(7)c was actively looking at
2 things, but, as I sit here, my impression would be she was
3 probably looking through what the exam folks had garnered in
4 connection with their investigation.

5 BY MR. KOTZ:

6 Q Okay. Did you follow-up at all on what happened
7 with the Stanford case after you made the decision -- did you
8 have any involvement later on?

9 A Yes. We did have a process by which every six
10 weeks on a rotating basis each branch talked about their
11 cases, so at least once every six weeks I met with Jeff and
12 (b)(6), (b)(7)c on Stanford, where that was going.

13 As I recall, it took a longer period than was
14 appropriate, in my opinion, to get the formal order done,
15 both in terms of getting the written product out the door and
16 then getting it through the Commission. I mean, it was
17 something ridiculous like two months of review in DC before
18 it got on a commission calendar, those kinds of things. So
19 there were a lot of time delays that are, I suppose,
20 different points in my career more frustrating than others
21 and this might have been one of those points where I was
22 frustrated.

23 Q Okay. Let me ask you about a couple of matters,
24 based on all your experience having been an enforcement
25 attorney and then on the private part. Are you familiar with

1 Section 206 of the Advisers Act, Investment Advisers engaging
2 in fraud or fraudulent scheme upon a client?

3 A Yes.

4 Q And is it correct that with Section 206 of the
5 Advisers Act, unlike 10(b), you wouldn't need to show that
6 the CDs were securities; is that right?

7 A If the individual involved were an adviser?

8 Q Right.

9 A There would be ways that you could charge a case
10 that way, sure.

11 Q And is that a possibility for a potential charge in
12 the Stanford case if you had this issue about whether the CDs
13 were securities?

14 A I don't know that we ever considered -- well, I
15 don't know, I guess, is my answer. I don't know whether
16 Stanford was an adviser. My impression was he was not -- or
17 not Robert Allen Stanford but the Stanford entities. I
18 believe it was just the broker-dealer entity that was
19 operating in Houston.

20 Q But what about the broker-dealer -- okay. So you
21 weren't sure that there was any entity that you could
22 categorize as an adviser to bring that kind of claim?

23 A David, as I sit here, I don't recall that there was
24 an entity that we were thinking would meet the definition of
25 an investment adviser, no.

1 (b)(6), (b)(7)c : Is it fair to say in this November
2 time frame when the staff was briefing you, November of '05,
3 that there was no discussion of whether or not Section 206
4 was available or whether there was an Investment Adviser
5 entity?

6 THE WITNESS: I don't recall any discussion related
7 to an adviser.

8 (b)(6), (b)(7)c : I would note the two memos you've
9 looked at, the November 7th memo, the November 14th memo,
10 make no reference to an investment adviser entity, so that's
11 consistent with your recollection?

12 THE WITNESS: I do recall having a lot of
13 discussions about whether various 34 Act provisions in terms
14 of books and records and whether a broker-dealer who did not
15 have access to the kind of information they claimed not to
16 have access to in terms of how the returns were being
17 generated, whether a broker-dealer could stand behind that.

18 BY MR. KOTZ:

19 Q Right.

20 A There were a lot of discussions about that. I
21 would think, if somebody had given some thought to is this an
22 adviser or really thought that was a possible angle, we would
23 have been talking about that as well, but it was not -- as I
24 sit here today, I don't recall any discussion about Stanford
25 as an adviser.

1 THE WITNESS: Yes

2 (b)(6), (b)(7)c : And I want to walk you through some
3 circumstances that did exist that -- I don't want you to
4 think I'm trying to play gotcha, because as you've already
5 testified, we have no indication that anyone brought to your
6 attention the possibility of a 206 case or any indication
7 that anyone informed you that Stanford was an Investment
8 Adviser, but the fact is there was -- that Stanford was a
9 dual registrant, a broker-dealer and an investment adviser.
10 You didn't know that, correct?

11 THE WITNESS: As I sit here, it's a surprise.

12 (b)(6), (b)(7)c : And when I say Stanford, I'm talking
13 about Stanford Group Company.

14 THE WITNESS: Okay.

15 (b)(6), (b)(7)c : The Houston --

16 THE WITNESS: The Houston-based entity?

17 (b)(6), (b)(7)c : The Houston-based entity. I take it
18 also, I'm assuming -- I shouldn't assume, that you were
19 unaware that the Investment Adviser exam staff had done an
20 exam of Stanford Group Company in Houston in 1998 and 2002.
21 You weren't aware of that.

22 THE WITNESS: I was not aware of that.

23 (b)(6), (b)(7)c : And in these meetings in the November
24 2005 frame, I assume that there was no involvement of any
25 Investment Adviser exam staff in any of those discussions.

1 THE WITNESS: No. Other than Hugh Wright --

2 (b)(6), (b)(7)c : Hugh Wright.

3 THE WITNESS: -- because, of course, Hugh monitored
4 both programs or oversaw both programs

5 (b)(6), (b)(7)c : Right. And I assume that you were
6 unaware that the 2002 exam had resulted in a referral to
7 enforcement to bring, among other things, a 206 case. You
8 weren't aware of that, correct?

9 THE WITNESS: I didn't know that, no.

10 (b)(6), (b)(7)c : I'll represent to you, and if you
11 would like -- I think -- I hope we have it here, but I don't
12 think it's necessary for this line of questioning, but we're
13 not trying to hide anything, so happy to show you the report,
14 but for now let me just explain to you that the examiners
15 that conducted the 2002 report, who were (b)(6), (b)(7)c and
16 (b)(6), (b)(7)c, I believe. (b)(6), (b)(7)c may not have been there at
17 the time. I think he had left --

18 THE WITNESS: Left --

19 (b)(6), (b)(7)c : -- by the time you were in Fort Worth
20 but (b)(6), (b)(7)c was. They -- their 206 argument was focused on
21 the fact that the Investment Adviser in Houston would not
22 provide them any information about what the investments --
23 what Stanford was investing the proceeds in to generate these
24 returns. And, in fact, affirmatively represented that they
25 had no such information, alternatively saying that there was

1 a prohibition in Antiguan bank secrecy laws that prevented
2 SGC from getting that information and then secondly, I think,
3 when that kind of started not holding water, claiming there
4 was a Chinese wall between the entities.

5 And so the theory that they proposed in essence was
6 that a Section 206 case be brought, that the Investment
7 Adviser in Houston did not have enough due diligence to
8 satisfy its fiduciary duty to its clients under either 206.1
9 or 206.2.

10 Based on your experience both in the Commission and
11 private practice, I mean, assuming I've represented to you
12 that report and those factual circumstances correctly, do you
13 have an opinion on the viability of that case?

14 THE WITNESS: As I sit here, I have a bit of a pit
15 in my stomach, because I wish I had known that. I am curious
16 whether Julie's report notes that they're a dual registrant
17 or that had that history, because I'm fairly certain I would
18 have read her report at some period of time, the BD report.

19 (b)(6), (b)(7)c : I don't believe it does..

20 THE WITNESS: Adviser cases are always easier than
21 broker-dealer cases because of the heightened fiduciary duty
22 standard. And it always does give an alternative way to look
23 at facts.

24 If I knew that and I overlooked it, I apologize.
25 If I didn't know it, I'm a little frustrated but.

1 BY MR. KOTZ:

2 Q But if you had known that at that time, would that
3 have been a very good avenue to bring a case against Stanford
4 under Section 206 of the Advisers Act?

5 A Well, I don't want to overstate it, but it would
6 have been an alternative theory that has some potential,
7 yeah.

8 Q Okay.

9 (b)(6), (b)(7)c : Maybe it would be helpful, if you
10 don't mind, David, if we show her the 2002 exam report and
11 see exactly what the examiner sent to enforcement. I think
12 it would be helpful for us.

13 And, again, no one is -- you know, there's no
14 reason to believe that you ever saw any of these materials or
15 knew about the information obtained in them, I don't want to
16 suggest otherwise.

17 So the reason I would like to show it to you is to
18 get your opinion from what I understand would be the first
19 time you've ever been presented with this information.

20 THE WITNESS: And this would be just so I could
21 opine that maybe we should -- maybe the Commission should
22 have done something earlier?

23 (b)(6), (b)(7)c : Sitting in November 2005 had you
24 known this information -- you've described very well the
25 situation that you're sort of meeting with your staff,

1 suspicious there's a fraud, unable to develop evidence of
2 that fraud because -- in order to go into court, right, and
3 in part because of the legal hurdle of approaching it from
4 the BD angle of having to establish that the CDs are
5 securities. And basically what I'm asking you to do, and
6 we'll give you time to read this exam report, take a look at
7 however many of the pages you want, I think the most salient
8 parts are pages 10, 11 and most of page 12 of the report that
9 he's going to hand you.

10 (SEC Exhibit No. 7 was marked for
11 identification.)

12 BY MR. KOTZ:

13 Q Okay. Let me show you this marked as Exhibit 7.
14 This is a memorandum dated December 19, 2002 from Hugh Wright
15 to (b)(6), (b)(7)c . And if you could look at the third page
16 of this document, which references the summary of violations
17 and then, you know, as David noted pages 10, 11, 12, 13, I
18 guess, which talk a little bit more about the specifics.

19 THE WITNESS: Okay. What was your question, Dave?

20 (b)(6), (b)(7)c : In essence I would like you, if you
21 had an adequate opportunity, and to sort of put yourself back
22 -- obviously we're talking about hypothetical, but if you had
23 been at that meeting and if you had known generally the facts
24 outlined in this memo, that he was a dual registrant, he had
25 investment adviser clients that were purchasing these CDs

1 based on their recommendation, and that the SGC's position
2 was we had no due diligence -- well, what the exam staff
3 calls adequate due diligence material to turn over to the
4 exam staff because we don't have it and we can't get it.

5 What would have been your opinion, do you believe,
6 about the viability or the possibility of pursuing a 206 case
7 as an option? You discussed a Section 5 case as an option
8 and some other things, but do you have a sense of the
9 viability or the potential for bringing a Section 206 case in
10 order to get into court and if nothing else shut down the
11 sale of the CDs by the Investment Adviser entity until they
12 had adequate due diligence and perhaps through the civil
13 discovery process obtained in that action obtain the evidence
14 of a ponzi scheme. Do you have an opinion about that?

15 THE WITNESS: I do. I think that the issue when
16 you're dealing with an adviser versus a broker-dealer here
17 gives the ability to sort of add on that due diligence
18 component, because the broker can say I'm selling CDs of this
19 Stanford Bank, it's Antiguan bank, and I have rates of
20 return, I show they have past performed, blah, blah, blah,
21 blah. It's just like buying a CD at Wells Fargo. I don't
22 know where Wells Fargo spends its money once I invest in the
23 CD and that's not my obligation.

24 And, in fact, even, I think, when that CD from
25 Stanford pays more than your Wells Fargo CD you probably have

1 a tougher time with a broker-dealer, but when you put it in
2 the fiduciary realm and you have, for example, the chart in
3 here that shows the difference between what the U.S. CDs were
4 paying and this purportedly Antiguan CD, there's reason to
5 raise a red flag that would require additional fiduciary
6 duties upon an adviser that wouldn't or might not be there
7 with respect to a broker.

8 So, yes, I see that as a potentially
9 straightforward way to have attempted to approach it.

10 (b)(6), (b)(7)c : You think that might have been a good
11 option.

12 THE WITNESS: It might have been a good option,
13 yeah.

14 BY MR. KOTZ:

15 Q Okay. Let me ask you kind of another set of
16 questions. Were you aware that enforcement had opened up a
17 matter under inquiry some time before with regard to Stanford
18 at that time?

19 A I don't think I knew that, no.

20 Q Were you aware of particular complaints that came
21 in relating to Stanford?

22 A No. I don't think I -- there was a footnote in
23 this memo, Exhibit No. 7, with respect to a complaint that
24 was referred to the Texas State Securities Board as was this
25 referral, I guess, the potential enforcement case with

1 conversations with Corp. Fin. about the issue of (b)(5), (b)(7)a
2 (b)(5), (b)(7)a . They liked to talk about that a lot. (b)(6), (b)(7)c
3 (b)(6), (b)(7)c, (b)(6), (b)(7)c would be some of the folks that
4 would have looked at that with us.

5 And talking about the Ref's analysis or Ref's,
6 depending on how you pronounce it, for when a bank CD is or
7 isn't covered, all of those kinds of things I do recall
8 having those discussions. I don't remember that any of them
9 were particularly problematic or that anybody was suggesting
10 that we not do it.

11 It was more about how to structure the argument.

12 (b)(6), (b)(7)c
13
14
15 (b)(6), (b)(7)c but
16 his writing was the thing he was most proud of and he worked
17 very, very hard to get it perfect.

18 And for better or worse, I'm not a perfectionist.
19 I am whatever-gets-the-job-done kind of a lawyer and
20 sometimes I lose patience with that, so I recall being
21 frustrated that, you know, if we're just moving commas, Jeff,
22 we need to move it. Let's get it out the door kind of thing.

23 But I don't remember anything as a -- it wasn't
24 passive aggressive saying if I sit on it long enough, she'll
25 forget it. It wasn't anything like that. It was making sure

1 investigation into these areas that had a higher probability
2 of resulting in a successful case if the Commission chose to
3 bring it, your decision was to conduct a broader
4 investigation to try and pursue any avenues of bringing a
5 case against Stanford; is that correct?

6 THE WITNESS: That is correct.

7 (b)(6), (b)(7)c : Okay. Last question if you -- if you
8 have any opinion or heard anything about this, we've heard
9 from various people that Jeff Cohen was very much a favorite
10 of Spence Barasch and Hal Degenhardt's and that they were
11 blind to his flaws as a manager, maybe as an enforcement
12 attorney. Would you agree with that?

13 THE WITNESS: That is my understanding. I did have
14 a conversation with Hal briefly about it directly, but other
15 than that I only know it from secondhand knowledge.

16 (b)(6), (b)(7)c : Okay. And you mentioned in your
17 testimony today that Jeff Cohen had a problem with your
18 appointment to supervise -- into that position to supervise
19 him. We've heard that Hal Degenhardt actually wanted Jeff
20 Cohen for that position and that there was a revolt in the
21 office over that possibility. Did you -- are you aware of
22 that?

23 THE WITNESS: Yes

24 (b)(6), (b)(7)c : Is that correct?

25 THE WITNESS: That's, again, my understanding. I

1 wasn't in the office at the time. But I believe it is Linda
2 Thompson who not only told me that Hal wanted to put Jeff in
3 that position but that the staff was unhappy and she was not
4 planning to do that.

5 (b)(6), (b)(7)c : That's all.

6 MR. KOTZ: Okay. I don't think we have anything
7 more. The only thing I would ask in order to preserve the
8 integrity of the investigation you not discuss your testimony
9 with anyone else.

10 THE WITNESS: Yes.

11 MR. KOTZ: Okay. We're off the record.

12 (Whereupon, at 10:26 a.m., the examination was
13 concluded.)

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EXHIBIT 23

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 20
PAGES: 1 through 39
PLACE: Securities and Exchange Commission
Burnett Plaza, Suite 1900
801 Cherry Street, 19th Floor
Fort Worth, Texas
DATE: Thursday, January 28, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 10:58 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

(b)(6), (b)(7)c

5

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7

8 Securities and Exchange Commission

9 Office of Inspector General

10 100 F Street, N.E

11 Washington, D.C. 20549

12 (202) 551-6037

13

14 On behalf of the Witness:

(b)(6), (b)(7)c

15 , PRO SE

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1 Q What kind of struck you, if anything?

2 A Overall?

3 Q Yeah.

4 A Well, after -- you know, after I had -- it took a
5 long time to kind of -- a lot of investigation to try to
6 figure out, you know, what was going on over there and this
7 was kind of new to me, but once I went through all the
8 documents, I mean, I was concerned about -- obviously about
9 the returns on the CDs, which in some of the marketing
10 materials, which I saw, as outside the U.S. investors, the
11 non-U.S. investors, particularly when they were comparing --
12 they had brochures comparing, you know, Stanford CDs to U.S.
13 CDs, which I thought was really bad.

14 I didn't understand how they could pay that much
15 more than CDs in the U.S. and sort of claim they were
16 equivalent.

17 I didn't understand how they could pay an ongoing
18 three percent fee to the broker-dealer for selling the CDs on
19 top of the rates, which were already fairly high, so, I
20 guess, overall I just -- I was concerned and I didn't
21 understand how it was possible for them to do that.

22 And then I got into all the due diligence
23 information, at least what the firm would give me, and tried
24 to do the best I could with that since they kept raising
25 different defenses as to why they couldn't provide

1 information, specifically as to what the bank was investing
2 the money in. And I went through that as -- to the extent
3 that I could and I just -- I didn't feel comfortable that I
4 really understood how they could pay or guarantee a return
5 that was that high on something that seemed -- that they were
6 purporting to be like a CD investment.

7 Q All right. So is it fair to say that you saw a lot
8 of red flags about the aberrations of those CDs?

9 A Yes.

10 Q And is it fair to say that you were very concerned
11 that this was a potential fraud or a ponzi scheme?

12 A Yes.

13 Q Okay. Were you aware that after you finished the
14 field work, but even before you concluded the exam, there was
15 an effort made to draft a written referral memo to
16 enforcement?

17 A Yes.

18 Q Did you participate in that process at all?

19 A My recollection of that is that, yeah, as we were
20 working on that, it was kind of headed up by Julie Preuitt
21 and Victoria Prescott, our attorney that's assigned to the
22 broker-dealer group. I assisted I'm sure to some extent, but
23 I really don't remember how active or how involved I was. I
24 was certainly involved in the process.

25 Q Okay. And were you in agreement with the essence

1 But, like I said, so -- I mean, I believe that as
2 we were reviewing information, as we had information, we were
3 funneling that to Julie and we were all talking about it,
4 meeting about it and all that was getting into the referral
5 memo.

6 And then the report finalization is -- in this case
7 I think was kind of a formality. We obviously have to close
8 the exam, but...

9 Q Right. Did you have any communications with anyone
10 in enforcement about what you found in this examination?

11 A Yes. Individually or?

12 Q Whatever communications you had.

13 A We did -- I can't remember all -- I mean, we had
14 some meetings. I can't recall the dates of all the meetings.

15 Q Who was there for enforcement?

16 A I think that Jeff Cohen was initially assigned the
17 referral. And the main meeting that I remember, and I can't
18 tell you the date, was when we first met with him to --
19 because he wanted to meet and talk about it and we met with
20 him in his office on this floor and -- Julie, Victoria,
21 myself, I can't remember whether (b)(6), (b)(7)c was still here or not,
22 and we basically just -- it wasn't a long meeting but we --
23 he had some questions about the referral and we talked about
24 it.

25 Q Do you remember how many -- about how many other

1 meetings you had with Jeff Cohen about this matter or was
2 that the only one?

3 A That's -- I remember with specific clarity that
4 first meeting, but I don't -- I can't specifically recall
5 other meetings with Jeff.

6 Q Okay. What about with (b)(6), (b)(7)c ? Do you
7 remember any meetings with her?

8 A Yes. I remember that I had all of my work paper
9 boxes and she had at some point, and I'm fuzzy on the time
10 frames, had taken it over and she was wanting to look at the
11 files and she took them and we talked about it briefly, but I
12 don't -- I don't remember any lengthy meetings or anything
13 like that with (b)(6), (b)(7)c .

14 Q Okay. The meeting that you do remember about Jeff
15 Cohen, do you remember anything about his kind of attitude or
16 perspective on this investigation?

17 A I remember that he was not real excited about it.

18 Q Did he indicate why?

19 A I don't remember -- he seemed to -- and I'm not an
20 attorney, he seemed to have -- there were some legal concerns
21 about (b)(5), (b)(7)a

22 (b)(5), (b)(7)a

23 And there were -- we were raising concerns about,
24 well, you know, we don't know what they're doing with this
25 money. They're just selling it and they're saying they're

1 know, a very strong likelihood, if not a guarantee, that
2 you're going to get that particular percentage. Just like a
3 CD with a normal bank, --

4 A Right.

5 Q -- you don't think that's subject to fluctuations.

6 A That's correct.

7 Q Okay. Was one of the things that you found in this
8 examination, and it's sort of referenced on page two, that
9 the primary difference between what you found in 2004 versus
10 what was found in 1997 was that the firm had increased its
11 revenues and the fraud had potentially grown significantly.
12 Is that consistent with your recollection?

13 A Yes.

14 Q And so was it your feeling at the end of this
15 examination that it was really incumbent on the SEC to do
16 something, whatever it could do, to try to stop this growing
17 potential fraud?

18 A Yes.

19 MR. KOTZ: Let me show you another document. This
20 is an e-mail dated 10/14/04, 12:16 p.m. from you to (b)(6), (b)(7)c
21 (b)(6), (b)(7)c, (b)(6), (b)(7)c, (b)(6), (b)(7)c, Victoria Prescott and
22 Julie Preuit. We're going to mark this as Exhibit 7.

23 (SEC Exhibit No. 7 was marked for
24 identification.)

25 BY MR. KOTZ:

EXHIBIT 24

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 21
PAGES: 1 through 28
PLACE: Securities and Exchange Commission
Burnett Plaza, Suite 1900
801 Cherry Street, 19th Floor
Fort Worth, Texas
DATE: Thursday, January 28, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 11:50 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

(b)(6), (b)(7)c

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8 Securities and Exchange Commission

9 Office of Inspector General

10 100 F Street, N.E

11 Washington, D.C. 20549

12 (202) 551-6037

13

14 On behalf of the Witness:

(b)(6), (b)(7)c

15 , PRO SE

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1 A I was very impressed with (b)(6), (b)(7)c . I knew his history
2 at FINRA -- NASD at the time, because I had helped conduct
3 oversight examinations of FINRA and the oversight inspections
4 of FINRA and just from kind of the general working knowledge
5 I knew that, you know, when you were reviewing one of (b)(6), (b)(7)c
6 exams, if he said that was the case, then that was pretty
7 much the case. There were some exam staff that, you know, it
8 was a bit of a concern that, you know, if that was the
9 examiner, but with (b)(6), (b)(7)c I just always had that, well, it's
10 solid then feeling about his work.

11 Q What about (b)(6), (b)(7)c ?

12 A (b)(6), (b)(7)c I did not know as well prior to his employment
13 here. I thought (b)(6), (b)(7)c was very knowledgeable and very capable
14 from a technical standpoint. I did have a concern or two
15 about (b)(6), (b)(7)c

16 It wasn't -- well, I believe he may have had a

17 (b)(6), (b)(7)c

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23 (b)(6), (b)(7)c

24 , but at times I was trying
25 to figure out exactly if we were on the same page with each
26 other.

27 Q Okay. But you had no concerns about (b)(6), (b)(7)c

1 examination skills?

2 A No. No. Huh-uh.

3 Q Okay. When did you first learn of the existence of
4 Allen Stanford, the Stanford Group Company or Stanford
5 International Bank?

6 A I believe it was probably in 1997 or early 1998 I
7 was, as I said, a new examiner at the time and I do remember
8 there being discussions in the office about Stanford and what
9 was going on there, but I didn't participate in the exam and
10 I was new, so it was more just hearing about at that time.

11 Q Among the things that you heard in the 1997, 1998
12 time period, was there concern at that time about these CDs
13 that were being sold and the potential of fraud going on?

14 A Yes, sir. I would say so.

15 Q And that was in connection with the broker-dealer
16 exam that (b)(6), (b)(7)c did under Julie Preuitt's direction?

17 A Yes.

18 Q Do you remember at that time any discussion about a
19 referral of that broker-dealer exam in 1997 to the
20 enforcement division?

21 A I don't have a clear recollection from that time
22 about those types of discussions.

23 Q Okay. Were you -- did you hear or were you
24 involved in any other exams subsequent to hearing about it in
25 the 1997, 1998 time period until 2004 when you were involved

1 in an exam of Stanford?

2 A I want to clarify your question. Did I hear about
3 it or was involved in any other exams or --

4 Q Right.

5 A -- or just hear about or involved in any way with
6 the company exams?

7 Well, I guess actually then neither, because we
8 didn't -- I was not involved in any of the -- I don't believe
9 there were any other exams between and I didn't have any
10 other dealings -- if there were IA exams or something, I was
11 not involved in them.

12 Q Okay. But you did at some point in time become
13 involved in an exam of Stanford in 2004?

14 A Yes.

15 Q Okay. And do you remember how that came to your
16 attention?

17 A I do not specifically.

18 Q Okay. Generally do you remember?

19 A Generally, again, it's not a firm recollection, but
20 our general process was to track certain broker-dealers, kind
21 of have them on our radar. And I believe that Stanford was
22 one of those. I know it was. It was one of the things on our
23 radar.

24 Was that exactly what led to the next examination I
25 cannot say whether it was or wasn't, but just a working

1 knowledge of our broker-dealers in the region that would have
2 played into it. Was that the determining factor, I don't
3 remember.

4 Q Okay. Were you involved at all in the decision of
5 who to staff the Stanford exam with?

6 A I believe that I most likely was, but I don't
7 remember specific conversations or whether it was at the
8 suggestion of Julie, whether it was a collaborative decision,
9 I don't recall.

10 Q Do you remember anything about Julie Preuitt at
11 that time being very concerned about the operations of
12 Stanford and so particularly recommended perhaps (b)(6), (b)(7)c as
13 a very experienced and strong examiner who she wanted to work
14 on this matter because she felt it was such an important
15 exam?

16 A I don't have a specific recollection of that kind
17 of statement, but it would have been completely in the norm
18 for both Julie and I in a discussion about how to staff
19 something that I'm certain that this rose to the level of we
20 need to have good people on it. We need to be very careful
21 about who we staff this exam with, but, again, I don't
22 remember a specific conversation.

23 Q And the team of (b)(6), (b)(7)c and (b)(6), (b)(7)c
24 a very strong team?

25 A Yes.

1 Q Okay. Do you remember anything when you were doing
2 prep work or talking with the examiners about prep work for
3 the 2004 exam about the fact that because there had been
4 previous exams there really weren't going to be a lot of
5 surprises in terms of what was found. It was more to
6 document it and perhaps to demonstrate that the potential
7 fraud was growing?

8 A Again, I don't remember it that specifically. My
9 recollection would be more that -- the concern that it was
10 ongoing and to determine if it was still continuing. I do
11 remember that there was some concern about the growth in
12 their revenues. And so if they're still doing the same thing
13 and their revenues are growing, then it would lead to -- we
14 need to go see to what extent this thing is happening now, --

15 Q Okay.

16 A -- if it's still the same.

17 Q How much involvement did you have per se in the
18 examination?

19 A I don't remember.

20 Q Okay.

21 A And I feel that I should be able to, but I have
22 been thinking about this. I haven't gone back and tried to
23 recreate anything in my memory, but it was -- was there a
24 specific meeting with (b)(6), (b)(7)c when we talked about this or that,
25 was there a specific time that I met with him and it would

EXHIBIT 25

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 22
PAGES: 1 through 121
PLACE: Securities and Exchange Commission
 801 Cherry Street
 Burnett Plaza, Suite 1900
 Fort Worth, Texas
DATE: Tuesday, February 16, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 1:14 p.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5 (b)(6), (b)(7)c

6

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8

9 Securities and Exchange Commission

10 Office of Inspector General

11 100 F Street, N.E

12 Washington, D.C. 20549

13 (202) 551-6037

14

15 On behalf of the Witness:

16 JEFFREY A. COHEN, PRO SE

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1 this is something that's familiar. As I said, I'm sure that
2 I would have been provided this, and I'm sure that I would
3 have read it as part of the preparation for handling the
4 referral. Does it look familiar? Vaguely.

5 Q Okay. Let me show you this document marked as
6 Exhibit 3. If you could turn to the last page of this
7 document marked as Exhibit 3 where you see it says
8 "Violations Description" and it has five words there on the
9 last page. It says, "Possible misrepresentations, possible
10 Ponzi scheme." Do you see that?

11 A Yes, I see that.

12 Q My question to you is at the time that you began
13 working on the Stanford referral in 2005, were you aware that
14 eight years previously, the SEC Fort Worth office had done an
15 examination where they concluded that Stanford was running a
16 possible Ponzi scheme?

17 A I believe so. And more to the point, there was no
18 -- there was no mystery about the belief in this office.
19 Everybody, everybody believed that this was probably a Ponzi
20 scheme. We weren't entirely sure because there was no actual
21 evidence of an imploding scheme. But the examination people
22 were very clear. They said we're convinced that this is a
23 Ponzi scheme. I believe I got a memo from Julie Wright and
24 -- Julie Preuitt and Hugh Wright, and they were very
25 unequivocal in their feeling that this was probably a Ponzi

1 scheme because these were insupportable returns, and nobody
2 in the enforcement division here disagreed with them. They
3 just said we've got to have proof.

4 In my memo that I prepared, the November 15, 2005,
5 memo that I prepared and gave to Mr. Clarkson, who is heading
6 the office at the time, and Kit Addleman, (b)(5), (b)(7)a

7 (b)(5), (b)(7)a . I
8 assume you have my memo.

9 Q Yes, yes. That's very helpful.

10 A So there was no mystery. We thought this could be
11 a Ponzi scheme. Did we have proof of it in the sense that we
12 could show that current principal was being diverted to pay
13 preexisting investors? We didn't have proof at the time.
14 But we suspected just from the returns themselves that there
15 was a possibility, certainly, that this was a Ponzi scheme.
16 And as I said, I'm sure that I reviewed all of these
17 examination reports.

18 Q Okay, great.

19 A And the other thing is the examination people were
20 very vocal. They didn't hide their -- to use a phrase, they
21 didn't hide their belief in the report. They were very
22 demonstrative.

23 (SEC Exhibit No. 4 was marked for
24 identification.)

25 BY MR. KOTZ:

1 about, certainly.

2 Q Was your perspective on whether to bring an action
3 against Stanford or what action to bring against Stanford,
4 did that change at all over time, or what was embodied in
5 that memorandum in November, was that always your view?

6 A The view that I espouse in this memo is

(b)(5), (b)(7)a

7 (b)(5), (b)(7)a

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(b)(5), (b)(7)a

1 (b)(5), (b)(7)a
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4 Q That was your preferred approach?

5 A (b)(5), (b)(7)a

6 (b)(5), (b)(7)a
7

8 Q Okay. So you recommended that as the approach?

9 A The memo speaks for itself. Do you want me to read
10 into the record --

11 Q No. I'm asking what you remember.

12 A (b)(5), (b)(7)a

13 (b)(5), (b)(7)a
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18 Q That was in November of 2005?

19 A It was a summit meeting of sorts because --

20 Q Right. But just to get the dates --

21 A Yes, November 15, 2005. Now, we were at that time
22 trying to decide which way to go in the case. This was a
23 meeting that was held between myself, Mr. Korotash, Kit
24 Addleman, Jim Clarkson was there. I can't remember if Julie
25 or Hugh were there.

1 MR. KOTZ: Let me show you another document. We're
2 going to mark this Exhibit 10.

3 (SEC Exhibit No. 10 was marked for
4 identification.)

5 BY MR. KOTZ:

6 Q This is an e-mail --

7 A We did a lot of work preceding my November 15th
8 memo.

9 Q Okay. E-mail from (b)(6), (b)(7)c to you and (b)(6), (b)(7)c
10 (b)(6), (b)(7)c, 9/3/2005, 5:51 p.m. We're going to mark it as
11 Exhibit 10. If you notice in this e-mail, the second e-mail
12 down, there's an e-mail from you to (b)(6), (b)(7)c, Saturday,
13 September 3, 2005, subject, Re: Stanford, where you say,
14 "Close the case."

15 A Where? I'm sorry.

16 Q (Indicating.) So I guess what I'm having a hard
17 time understanding is that if (b)(5), (b)(7)a

18 (b)(5), (b)(7)a

19 (b)(5), (b)(7)a, why in September of 2005 did you say to close
20 the case?

21 A I think it's probably because at that time -- and
22 again, I haven't reviewed this in some time. But probably at
23 that time -- I mean, I notice that (b)(6), (b)(7)c is saying, (b)(5), (b)(7)a

24 (b)(5), (b)(7)a

25

(b)(5), (b)(7)a

1

(b)(5), (b)(7)a

2

and it goes on.

3

I would tell you gentlemen that I gave some

4

deference to my branch chief. (b)(6), (b)(7)c is a good

5

attorney. But I did my own due diligence on this case, and I

6

guess what happened was there was a decision made to not stop

7

just because of the obstructionist tactics of the Antiguan

8

banking authorities. I think I was probably just acting out

9

of deference to (b)(6), (b)(7)c recommendation, but --

10

Q So you didn't want to close the case in September

11

of 2005?

12

A I don't really remember exactly how I felt on this

13

particular date. I know that by the time I wrote the memo,

14

November 15, (b)(5), (b)(7)a. There was a lot

15

of discussions in the office about the difficulties of making

16

the case, in large part because of the obstruction of the

17

Antiguan banking authorities.

18

In this memo, he seems to be saying -- well, he's

19

saying we can't make out -- without bank records, we can't

20

make out a Ponzi scheme case. What I did personally around

21

this time period leading up certainly to my memo is I asked

22

-- I believe it was (b)(6), (b)(7)c. I don't know who I asked, but I

23

said I want all the documents, all the offering circulars for

24

the foreign investors and for the U.S. I want to read the

25

audit that was done by the auditing firm in Antigua.

1 Q You don't remember that that was because someone
2 else decided against your view --

3 A It may have been.

4 Q -- to go forward with the case?

5 A I don't have a specific recollection of Kit or Mr.
6 Clarkson telling me we're going to go forward. I just don't.
7 But is it possible? Yes, it's possible. But I will tell you
8 that by the time I reviewed the offering materials, I came to
9 the opinion that we should not close the investigation,

10 because (b)(5), (b)(7)a

11 (b)(5), (b)(7)a

12
13 Q Did that -- what happened after your November 2005
14 memo?

15 A Well, we had a meeting. I gave the -- I
16 distributed the memo to all the participants at that meeting,
17 before the meeting. Mr. Clarkson, Kit Addleman, Steve
18 Korotash was there. I don't remember who else was there.

19 Q Okay.

20 A I just want to be very clear, very, very clear. I
21 believed, having reviewed the offering materials, that there
22 was grist for an investigation right then and there. Up to
23 that point, I wasn't so sure because of the lack of evidence
24 and a lack of cooperation. But --

25 Q Right. What happened? I'm trying to get at what

1 happened after this November 14, 2005, memo.

2 A We all sat down, and we talked about it at the
3 meeting. There was a -- not long after the meeting, I either
4 called or spoke to Kit or -- I think I spoke to her. I'm not
5 sure. But I said, should we

(b)(5), (b)(7)a

6 And -- well, let me

7 backtrack. At the meeting, there seemed to be -- again, I'm
8 trying to remember.

9 Q Sure.

10 A It's been some time since the meeting because the
11 meeting took place right around the time of the date of my
12 memo. There just seemed to be reluctance to bring an
13 emergency action expressed at the meeting.

14 Q Who expressed that, do you remember?

15 A Not specifically, but I think it was --

(b)(5), (b)(7)a

16

17 Q So in the meeting, you were espousing the view that
18 an emergency action should be brought?

19 A No. I was just espousing the views in my memo,

(b)(5), (b)(7)a

20

21

22

23

24

25

1 (b)(5), (b)(7)a
2
3

4 Q And the decision was made not to bring an emergency
5 action?

6 A Yes, and it was not my decision. It was made by
7 Kit and Stephen Korotash and Mr. Clarkson. They decided no.

8 Q So there were a variety of options that you --

9 A And the main reason, as I recall it, (b)(5), (b)(7)a

10 (b)(5), (b)(7)a

11 Q So there was (b)(5), (b)(7)a that you laid out
12 in your November 14, 2005, memo?

13 A Yes.

14 Q Do you remember which option you espoused at that
15 meeting after your November 14, 2005, memo?

16 A I didn't espouse a view because I told them my view
17 is set forth in this memo. They already knew my view.

18 Q All right. But you had a meeting about it. You
19 didn't sit there and read the memo. I assume there was some
20 discussion.

21 A You have to understand, Mr. Kotz, Stephen Korotash
22 is a lifelong litigator. He was with the U.S. Attorney's
23 Office. He was there to tell us what -- I wasn't a litigator
24 at this time. I was an assistant in enforcement doing
25 investigations. The reason -- and I specifically requested

1 that Mr. Korotash attend that meeting. It was me, because I
2 knew, hey, this is a litigation issue. He needs to be
3 vetted. This needs to be vetted with Mr. Korotash, and the
4 consensus was we don't have enough to sue on for a Ponzi
5 scheme.

6 So the decision was made to pursue the
7 investigation that I thought we could pursue, while at the
8 same time trying to make out a Ponzi case. And there are
9 different ways to do that. We were going to proceed on both
10 tracks, see if you can discover that this is a Ponzi scheme,
11 discover evidence that it's a Ponzi scheme, and pursue the
12 sales practice investigation simultaneously.

13 Q Okay.

14 A But they decided -- because it wasn't my decision
15 to make -- to not file right away. And just to press the
16 issue home, because I wasn't entirely comfortable with that
17 decision, I subsequently asked Kit, should we just hire an
18 expert to tell us what they could or couldn't say at a trial,
19 because I think --

20 Q And what did she say?

21 A I think I had some misgiving that it was -- that
22 the recommendation to file an action on an expedited basis
23 was rejected, and she said no.

24 MR. KOTZ: Let me put the document into evidence
25 because we've been referring to it. So Exhibit 11 is your

1 do. They were certainly very glib about that. They would
2 have rebutted our allegations, I'm sure, in the press. Do I
3 think -- I think we should have hired an expert to tell us
4 whether an emergency action made sense or not. (b)(5), (b)(7)a

5 (b)(5), (b)(7)a . We didn't do it. I think we --

6 Q So you think that was a mistake?

7 A I thought it was a mistake at the time that we met.

8 Q Okay. That's all --

9 A But I don't mean a mistake that everyone knew would
10 lead to any particular consequence. I just thought that's
11 what we should do. (b)(5), (b)(7)a

12 (b)(5), (b)(7)a

13

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25 Q Okay.

1 A But I don't -- I don't want to go beyond what I set
2 out here --

3 Q That's fine.

4 A -- because I was very careful to set it out in this
5 memo as accurately and as precisely as I could.

6 Q Okay. Let me ask you this question. Did you --

7 A But I didn't know what would happen if we didn't
8 file or if we did file.

9 Q Are you familiar with Section 206 of the Advisers
10 Act?

11 A Yes.

12 Q Did you ever contemplate bringing an action under
13 Section 206 of the Advisers Act at that time with Stanford?

14 A I think so. I think that some of the issues that
15 I'm raising about a fiduciary obligation is certainly applied
16 to investment advisers, (b)(5), (b)(7)a

17 Q Was there any reason at that time not to bring a
18 Section 206 of the Advisers Act claim? Was there any
19 countervailing view on that?

20 A Well, I know that there are different -- I don't
21 have it in front of me, Section 206, but I know there are
22 different provisions. They talk about deceptive practices,
23 but again, that presupposes deceptive practices. Now --

24 Q Did you believe at that time --

25 A Let me finish.

1 Q Let me please ask. We're running out of time.

2 A Let me finish my answer. (b)(5), (b)(7)a

3 (b)(5), (b)(7)a

4

5

6

7

8

9 Q Did you believe there was a factual basis in
10 November of 2005 to bring a claim against Stanford based on
11 Section 206 of the Advisers Act?

12 A I don't think it was -- I think it was similar to
13 the claim we would have had to make under 10b-5.

14 Q Okay. Again, do you think there was a factual
15 basis in November of 2005 to bring a claim against Stanford
16 under Section 206 of the Advisers Act? Either there was or
17 there wasn't.

18 A Well, if we had filed the emergency action (b)(5), (b)(7)a

19 (b)(5), (b)(7)a

20

21 (b)(5), (b)(7)a . But if we had filed an emergency action in

22 (b)(5), (b)(7)a , 206, I'm sure, would have been in the

23 complaint.

24 Q So does that mean you did believe that in November
25 2005 there was a factual basis to bring a claim against

1 Stanford under Section 206 of --

2 A That's not a fair question. I think it would have
3 been a difficult case, and we might have lost for the same
4 reason I think we might have lost a 10b-5 case. I'm simply
5 telling you --

6 Q But a factual basis to bring a claim, not
7 necessarily to win the case.

8 A Sir, sir, sir, let me answer the question, please.
9 I feel that you're unfairly repeating the question over and
10 over. I'd like to answer it as best I can. I recommended in
11 my memo (b)(5), (b)(7)a . I didn't purport to say
12 in the memo every cause of action that we would include in
13 there. I gave it -- I addressed the issue. But if they had
14 (b)(5), (b)(7)a filed an emergency action, I
15 believe with some certainty that we would have included a
16 206(1) charge because Stanford is an investment adviser. And
17 even if they are not a registered investment adviser, SGC, we
18 could have probably made out that they were a statutory
19 investment adviser, or may have been able to. But what I'm
20 trying to tell you --

21 Q So you didn't know at that time whether they were
22 a registered investment adviser?

23 A I believe I did. I had the report. I'm just
24 saying to you that if we had brought the emergency action (b)(5),
(b)(7)a
25 (b)(5), (b)(7)a , I'm quite sure we would have had a 206 claim in

1 it.

2 Q So doesn't that mean you believe there was a
3 factual basis to bring a Section 206 claim at that time?

4 A I'm telling you that it was neither stronger nor
5 less strong than the factual basis for bringing a 10b-5 claim
6 based on a Ponzi scheme.

7 Q So isn't it true --

8 A I don't understand your question. Are you saying
9 --

10 Q Do you believe there was a factual basis --

11 A I don't understand your question. You have to
12 either let me ask you to clarify it or I can't answer it.

13 Q All right. Let me try it one more time.

14 A I'm asking the question. Are you talking about a
15 206 claim in the sense that it's a deceptive practice to
16 engage in a Ponzi scheme?

17 Q Any 206 claim.

18 A Well, there's 206(1), there's a 206(4).

19 Q Any.

20 A 206(4) involves sales material. I don't have it in
21 front of me.

22 (b)(6), (b)(7)c : I'm sorry, let me --

23 THE WITNESS: Why are you making me guess?

24 BY (b)(6), (b)(7)c :

25 Q Just help us understand, because you're more expert

1 in these issues than we are. You said that you're certain
2 that if they had (b)(5), (b)(7)a to file an
3 emergency action back in 2005, they would have included a 206
4 claim. What we don't understand on this side of the table is
5 can you explain to us what conduct it was that you could have
6 alleged back then that would --

7 A If someone asked me to write the complaint in 2005,
8 Jeff, (b)(5), (b)(7)a, write a complaint,
9 now, just taking a shot at it here, but I would have said in
10 the complaint (b)(5), (b)(7)a, that most of the money
11 raised has been raised from foreign investors. They are not
12 being told about a conflict of interest in the recommendation
13 to buy these things.

14 That's a 206 violation because under 206 you can
15 have a pure omission because of the fiduciary obligation, and
16 that can be deemed, I believe, a deceptive practice. So that
17 would have been as far as the complaint. We would have
18 alleged that this is a Ponzi scheme based on the
19 circumstantial evidence of the returns that don't seem to be
20 elastic or responsive to market fluctuations. That's
21 certainly a deceptive practice under 206. I've brought 206
22 cases as a branch chief.

23 Q If you can prove it's a Ponzi scheme?

24 A Of course, it's almost, per se, a deceptive
25 practice.

1 Q. Right. So those are the two sort of 206, I'll call
2 them cases, that you feel like you would have alleged in the
3 complaint then is, one, they are not fulfilling their
4 fiduciary duty to their foreign investors to disclose this
5 conflict of interest --

6 A. And I would have also put in the complaint that
7 they are not disclosing to the foreign investors as
8 extensively as to the U.S. investors. They have been
9 debarred from access to information about how these monies
10 are invested. Because in the U.S. disclosure document, which
11 we believe the U.S. investors did receive because we talked
12 about that, there's a rather lengthy and full-blown
13 recitation of the fact that, you know, there's a Chinese wall
14 between the broker-dealer and the issuing bank. I didn't see
15 that and I don't recall seeing that in the foreign
16 disclosure.

17 And as I told you gentlemen, that was a Eureka
18 moment for me. I said, look at this. Most of the money is
19 coming from foreign investors. They played it very close to
20 the vest in drafting that foreign document, probably because
21 they thought the scrutiny wouldn't be as rigorous because
22 they're foreign investors.

23 So if we had filed an emergency action, I suspect
24 that I would have said, you know, you can't make these
25 recommendations at all by law because you're unable to do a

1 proper due diligence and you haven't disclosed the fact that
2 you haven't done a proper due diligence to the foreign
3 investors.

4 Now, some of the e-mails that I saw between brokers
5 at SGC and the foreign investors were in Spanish, so we were
6 talking about getting a Spanish translator around this time,
7 November. I don't know if it was this time, around this
8 time, or at some point we were scrambling to get a
9 translator. But the point would be to be able to show that
10 they were not saying, hey, we're unable to do a proper due
11 diligence because we're debarred from access to information
12 about how these monies are invested. We're not telling you
13 how we're being compensated. We're not telling you that the
14 lion's share of our commissions come from sales of CDs.
15 We're not telling you, if this were the case, that we get
16 more commission for selling a CD issued by SIB than a
17 treasury note.

18 So absolutely, if we had filed an emergency action,
19 that would have been in there because if we had filed an
20 emergency action, we would have been taking a risk of a
21 negative ruling. So if we're going to lose, we might as well
22 throw in as much as we can and see if something sticks.

23 Q Okay. But I'm just trying to make sure I
24 understand the 206 action that you're contemplating. There
25 would -- the allegation based on circumstantial evidence that

1 it was a Ponzi scheme, if that was proven and, as you
2 mentioned, that would be a 2006 claim and --

3 A Well, it would have been a 10b-5. It would have
4 been 17a, 206(1)(2) and probably (4).

5 Q Right. And then second, though --

6 A And aiding and abetting also. It was a possibility
7 vis-a-vis the broker. The problem is that you have to have
8 substantial knowledge.

9 Q That's all dependent on you proving it's a Ponzi
10 scheme.

11 A Right.

12 Q But the other 206 action that you're talking about,
13 I gather, is not an aiding and abetting case. It's a direct
14 violation against SGC based on their foreign brochures.

15 A Of course. If you're an investment adviser, you
16 don't have to make out the aiding and abetting.

17 Q So the case you're contemplating would have focused
18 on the foreign brochure, right, and the inadequacies in the
19 foreign brochure?

20 A Yes, because that's what we had at the time.

21 Q Was there any thought given to --

22 A And -- I'm sorry, go ahead.

23 (b)(6), (b)(7)c : Actually, I need to --

24 MR. KOTZ: Why don't we go off the record for a
25 second.

1 A We don't enforce NASD rules, Mr. Kotz. We can only
2 bring --

3 Q So was there a factual basis for bringing a
4 suitability claim against Stanford in November 2005? Yes,
5 no, or I don't know.

6 A Well, with respect to the foreign investors, if we
7 had brought -- I am trying to cooperate, Mr. Kotz. What I'm
8 trying to say is we don't enforce that rule. We have to make
9 it a 10b-5 case. We don't bring NASD action cases. We can't
10 file in federal court a cause of action based on the
11 violation of an NASD rule.

12 Q But I asked you about a factual basis.

13 A It would have to be packaged as a 10b-5 violation.

14 Q So if you packaged it as a 10b-5 violation, would
15 you have had a factual basis to bring a suitability claim
16 against Stanford in November of 2005?

17 A Here's my answer. When I told you that we could
18 bring an emergency action, one of the things we could allege
19 and one of the things we could continue investigating is
20 whether they failed to disclose the conflict of interest in
21 selling these CDs. That's not really a per se suitability
22 issue. That's are you making a reasonable recommendation to
23 an investor. Suitability asks the question, once you make
24 the recommendation, was it suitable for that particular
25 investor. That's a fact-specific inquiry, and you can't

1 Q In your experience in enforcement, was there ever a
2 point in time where there was a concern in enforcement to
3 make sure to have a certain number of cases or stats for a
4 particular year?

5 A I don't think we ever -- nobody said we have to hit
6 a number.

7 Q I didn't ask you that.

8 A Everybody was mindful of stats.

9 Q In what way were they mindful of stats?

10 A Stats were recorded internally by the SEC in
11 Washington. I don't remember where they would show up on
12 reports, but there were reports generally available that
13 would show how many cases each office brought in a year.

14 Q Would it look better for an office if they brought
15 more cases?

16 A I think when I was assistant director, there was a
17 lot of pressure to bring a lot of cases. I think that was
18 one of the metrics that was very important to the home office
19 and to the regions.

20 Q Where did that pressure come from?

21 A That's a good question. I don't really know. I
22 suppose it came from the top, from the head of enforcement.
23 But that was something that everyone was aware of, and it was
24 no secret. I think that came from the top. They are the
25 ones who collated that information in the home office.

1 A Well, to give you an example, if we had done the
2 sales practice investigation case (b)(5), (b)(7)a
3 (b)(5), (b)(7)a, it's very possible that at the end of the road, we
4 might have sued a host of actual individual brokers. And we
5 might have had them all in one complaint, or we might have
6 had different complaints for different brokers. Each
7 complaint would have been a stat. So --

8 Q Right. That portion of the case would have been
9 actually good for a stat. But what about the Ponzi scheme
10 case?

11 A It really depends. If we included all the entities
12 and everybody in a single complaint, I believe we get a stat
13 just from filing a complaint. So I guess it would have been
14 one stat. I really don't know for sure.

15 Q But in terms of the complexity of the case against
16 the Ponzi scheme, it would take a long time, so that would
17 not be a simple case that you could get a stat from easily,
18 right?

19 A I wouldn't think so, no.

20 BY (b)(6), (b)(7)c

21 Q Speaking -- you were just speaking more generally
22 about the pressure to bring cases for stats, and you said you
23 figured it came from the top in some sense. Correct me if
24 I'm mischaracterizing --

25 A I think from the top, but also everyone in each

1 region. There's regional pride, and I think each regional
2 office -- especially here, we were very proud about our
3 productivity here.

4 BY (b)(6), (b)(7)c :

5 Q How was that communicated to you? How were you
6 aware that that was a priority?

7 A Spence made it pretty clear, and Hal.

8 Q How did they make it clear?

9 A They would compare our numbers to other offices. I
10 don't think that was unique to them. I'm sure every head of
11 each region did that.

12 Q Were there any other ways you can think of that
13 they communicated that priority?

14 A They did it more in a spirit of kind of collective
15 pride, like look how many cases we bring compared to other
16 offices. It wasn't whip cracking kind of mentality. It was
17 more look at how productive we are. We should get more credit
18 in the home office than we do here in Fort Worth.

19 Q Something else I wanted to ask you. I can try
20 asking more generally quickly. Do you recall having any -- I
21 think I already asked you earlier, when Spence Barasch was
22 still working at the SEC whether you talked about Stanford at
23 all. My question now is do you recall after Spence Barasch
24 left the SEC, did you have any conversations with him about
25 Stanford or any --

1 recollection, but at some point I learned either from Spence
2 or from the home office that he wanted to be involved in
3 representation. And it's not my bailiwick, so I left it to
4 the ethics office.

5 Q Okay. What I was most curious about is what the
6 conversation was.

7 A Oh, I don't remember. It may have just been Spence
8 calling me and saying, you know, I want to work on the
9 Stanford case. I don't remember specifically. I would have
10 said I don't know the ethics rules.

11 BY MR. KOTZ:

12 Q Why would there have been an ethics rule?

13 A I don't know. That's just my recollection is that
14 there may have been.

15 Q Did Spence indicate that if he had previously
16 worked on Stanford for the commission, that would have been
17 --

18 A That would have been the issue, yeah.

19 Q So did Spence represent to you whether he had
20 worked on the Stanford matter while he was at the commission?

21 A I don't remember the conversation. I really don't
22 remember any specifics of it. I think I remember talking to
23 him about the prospects of his getting involved in the case,
24 but I just said, look, that's an issue for the ethics office.
25 Or I would have said that. I don't have a specific

1 recollection of what we said.

2 Q Let me ask you, how would you describe your
3 management style?

4 A That's a pretty broad question. At what point in
5 time?

6 Q When you were a manager, when you were --

7 A As a branch chief?

8 Q -- assistant director?

9 A It changed over time.

10 Q How did it change over time?

11 A I think it was more -- I had to do a lot more
12 remedial work when I first got here because there was a
13 backlog of half-prepared, half-written memos that had to be
14 finished, and there were a lot of open-ended investigations
15 that had to be completed. So I was practically a journeyman
16 branch chief staff attorney when I first came here.

17 Q And then later on after it changed?

18 A What happened was it was a noticeable development
19 in the branch chiefs. They became just simply better and
20 more experienced, and they were able to be a lot more
21 autonomous than when I first came here. In fact, (b)(6), (b)(7)c
22 was one of the branch chiefs I initially supervised, and she
23 actually stepped down from branch chief. A lot of her cases
24 were backlogged. There was -- so I was basically doing
25 almost the work of a staff attorney branch chief when I got

EXHIBIT 26

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

WITNESS: Number 23
PAGES: 1 through 51
PLACE: Securities and Exchange Commission
801 Cherry Street
Burnett Plaza, Suite 1900
Fort Worth, Texas
DATE: Tuesday, February 16, 2010

COPY

The above-entitled matter came on for hearing, pursuant to notice, at 3:49 p.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5

(b)(6), (b)(7)c

6

7

8 Securities and Exchange Commission

9

Office of Inspector General

10

100 F Street, N.E

11

Washington, D.C. 20549

12

(202) 551-6037

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14 On behalf of the Witness:

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(b)(6), (b)(7)c

PRO SE

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1 Q Let me show you the next exhibit, this e-mail from
2 (b)(6), (b)(7)c dated 4/14/2005. It references Victoria
3 Prescott's memo, "Your memo was fantastic. Will be very
4 helpful going forward. (b)(6), (b)(7)c and I are opening MUI with
5 hope of bringing case quickly, possibly TRO. May need some
6 help from you and others in reg to make it happen."

7 So was there generally the feeling in the
8 enforcement group that the memo was something that should be
9 followed up on right away?

10 A Yes.

11 Q But it says with hope of bringing case quickly,
12 possibly TRO. That didn't happen, right?

13 A Right.

14 Q What was the reason for that?

15 A Well, typically we don't bring TROs unless we have
16 some evidence of something imminent that's happening that
17 needs to stop, you know, that we need to stop. I don't -- I
18 think, based on my recollection, everything that we -- I
19 mean, we did talk with Victoria, and every sort of
20 evidentiary basis was a, you know, it just sounds bad and
21 looks bad kind of thing, which we typically don't go into
22 court with things just kind of sound bad mentality, you know.

23 Q Was it generally hard with respect to a Ponzi
24 scheme to bring a case before the Ponzi scheme started to
25 unravel, so to speak?

1 A I think so because you don't -- you know, you don't
2 have any witnesses, you don't have anybody complaining about
3 anything going wrong, everybody is happy, so they are not
4 particularly cooperative. In fact, they are usually against
5 us when we go in and talk to them, as was the case with a lot
6 of the investors in Stanford. They were against us even
7 meddling.

8 Q But there were some investors that came forward.
9 Were you aware of that, regarding Stanford?

10 A Some investors?

11 Q Yeah.

12 A Not during the time I worked on it, no.

13 Q Okay. So a woman, Leyla, does the name Leyla mean
14 anything to you?

15 A Uh-huh. Didn't she work there?

16 Q Okay.

17 A I don't remember.

18 Q Yes. Do you remember any conversations with her?

19 A I remember the name. It's an unusual name. I
20 remember talking to her with Victoria.

21 Q Do you remember if that was useful, the
22 conversation with somebody who worked at Stanford?

23 A I do remember that it was very anecdotal, again,
24 nothing, no evidence. She talked a lot, and she was -- I
25 mean, as lawyers, you know, zero evidentiary value. But it

1 about Jeff or Jeff would say things about Julie and you would
2 kind of be caught in the middle?

3 A Not really. I'm pretty tough.

4 Q Okay. But that did go on during this time period
5 of 2005 while there were discussions of the Stanford case?

6 A I really don't remember it being a big -- like this
7 seems very dramatic to me. I don't remember this big, you
8 know, I'm sorry you're in such a terrible -- no, I don't
9 remember this being a big deal.

10 Q Okay. Let me ask you a question in terms of the
11 discussions about how to investigate Stanford or what action
12 potentially to bring. Do you remember any discussions about
13 bringing a claim under Section 206 of the Advisers Act?

14 A Nothing substantive, no.

15 Q What about suitability, do you remember issues
16 raised about suitability?

17 A Yes.

18 Q What were kind of the pros and cons of that? If
19 you don't remember specifics, do you remember what was
20 concluded in terms of suitability?

21 A I know we've looked into -- I mean, I remember
22 looking at and doing a lot of research on it. I don't
23 remember the conclusion -- I just don't remember the
24 conclusions.

25 Q Did you have the sense at the time that it was

1 pretty clear that there was some fraud or Ponzi scheme going
2 on but it was a question of how to attack it? Was that the
3 sense?

4 A Yes.

5 Q Okay. So there really wasn't much question about
6 whether Stanford was engaged in this fraud. It was a
7 question of what theory do you proceed under to get at it?

8 A Well, there was a question of -- I don't -- rather
9 than a conclusion that a Ponzi scheme was taking place, I
10 think it was more of something is going on here. Whether it
11 was a money laundering operation, whether they were running
12 drugs, whatever it was, clearly, you know, there was
13 something.

14 Q Something illegal?

15 A Yes.

16 Q Okay. And was it generally thought that the CD
17 returns were too good to be true?

18 A Yes.

19 Q So was there any thought at that point -- because
20 people were investing, more and more people were investing in
21 these CDs, which you believed were a potential fraud or some
22 illegal activity, was there any thought to trying to find any
23 hook to bring a case against Stanford even if you didn't
24 necessarily have all of your ducks in a row so you could kind
25 of start the process of stopping the fraud?

1 A Yeah. I mean, I think -- you know, a lot of
2 people, I remember, kind of putting their heads together in
3 the office, like with (b)(6), (b)(7)c, I remember having
4 discussions with him, and we talked to other offices. We
5 talked to market reg. We talked to IM. We talked to -- I
6 mean, I feel like a lot of heads looked at it, and that was
7 the aim was what can we do, what can we really do to get this
8 when we don't have what we would normally need to bring --
9 typically when we bring a Ponzi scheme case, we would have
10 bank records or we would know that the money was being
11 misappropriated.

12 Here we had this kind of legitimate looking
13 operation with a lawyer that used to be with the SEC and he's
14 making these representations to us, and there was just so
15 much that we didn't have. So what kind of case could we
16 bring? I know we talked about maybe a 10b-10 case or some
17 kind of a sales practice case and thought it's going to be
18 really lame. Like we looked at the remedies on some of these
19 things, and the one in particular -- I don't remember the
20 provision or what it was, but it was like a FINRA violation,
21 and it just seemed like so small potatoes, who cares. So
22 there was sort of a weighing of if we're going to get this,
23 we should get it and not be wasting our time with a sales
24 practice case.

25 Q Who was the former SEC lawyer?

1 process started, there was some hesitation about bringing
2 this type of case relating to Stanford as a formal order?

3 A No, I don't think so. No. I mean, like before we
4 encountered issues, were we afraid we were going to encounter
5 issues?

6 Q No, no. I mean, there was a long period of time
7 where this matter was analyzed and discussed and theories
8 were described. Was that done partially in order to really
9 build a solid case that you thought you could get a formal
10 order for?

11 A Yeah. I think kind of early on, a lot of the
12 discussion was on (b)(5), (b)(7)a like how -- you know,
13 is this going to be -- (b)(5), (b)(7)a ? What if we get to
14 this point and (b)(5), (b)(7)a ? So we lose on
15 something like that. And there was definitely, you know, a
16 feeling that (b)(5), (b)(7)a

17 (b)(5), (b)(7)a

18

19

20

21 Q We've had a bunch of people who have testified that
22 there was a concern kind of perhaps even emanating from
23 headquarters about offices ensuring that they have stats,
24 that they have, you know, many cases to show for themselves.
25 Was that the case?

A I mean, not at my level. I didn't worry about

1 A Yes.

2 Q Was that done?

3 A I don't remember.

4 Q Okay. You don't remember it being done, though, in
5 the time that you worked on Stanford before you transferred
6 over?

7 A I just don't remember. Can't say yes or no.

8 Q Okay.

9 BY (b)(6), (b)(7)c :

10 Q Do you recall there being any discussion about
11 trying to get documents from Antigua through MLAT procedure?

12 A Yes.

13 Q And what was discussed about that?

14 A I think we drafted the MLAT and worked with OIA on
15 it. And were they not a signatory to the treaty or
16 something? I can't remember. I remember there was some
17 issue like Antigua wasn't a signatory to it or they needed
18 criminal interest, and I think that was it. The criminal
19 authorities wouldn't step up. (b)(5), (b)(7)a

20 (b)(5), (b)(7)a

21 (b)(5), (b)(7)a So I don't think -- when I was there, I don't think
22 that was sent.

23 BY MR. KOTZ:

24 Q Do you remember what time period that was?

25 A It would have been, I guess, '06, '07. Can you

1 guys tell me when I left? Was it '07 or '08?

2 BY (b)(6), (b)(7)c :

3 Q It was early '07.

4 A So it would have been '06.

5 Q You mentioned earlier the criminal authorities.

6 Specifically on this point, which criminal authorities
7 declined to help out in trying to get documents from Antigua?

8 A It would have been somebody obviously at DOJ, but I
9 don't remember the person. I don't remember -- and I don't
10 think it was me that was in contact with them.

11 Q Okay. Do you know particularly if it was the U.S.
12 Attorney's Office or FBI office or main justice?

13 A I think it was main justice, but I'm guessing.

14 BY MR. KOTZ:

15 Q Did you work with (b)(6), (b)(7)c at all on the Stanford
16 matter?

17 A No. I think right at the very beginning, he may
18 have sent me a couple of things. But no, not really.

19 Q And then he left to go to the (b)(6), (b)(7)c
20 (b)(6), (b)(7)c, right?

21 A Right.

22 Q Do you remember before he left that he was
23 particularly kind of enthused about the case, or do you
24 remember if he had any reaction about it?

25 A No. He doesn't get that enthused about things.

1 MR. KOTZ: Let me show you this document. This is
2 an e-mail, 8/17/2005, 6:17 p.m., from (b)(6), (b)(7)c to you.
3 I'm going to mark this as Exhibit 12.

4 (SEC Exhibit No. 12 was marked for
5 identification.)

6 BY MR. KOTZ:

7 Q See if you remember this. (b)(6), (b)(7)c is, I
8 guess, from OIA, and he's talking about -- in his
9 suggestions, he's saying, "In addition, it is my personal
10 belief without a veiled threat, such as please let us know by
11 August 22 if you do not plan to cooperate so we may explore
12 other avenues to obtain these records from the bank, there is
13 no impetus to nudge a company to cooperate." Do you remember
14 this disagreement about what approach to use?

15 A Yes.

16 Q And so was this veiled threat ever used, (b)(6), (b)(7)c
17 (b)(6), (b)(7)c idea?

18 A Hold on, let me read it a second.

19 Q Sure.

20 A I do remember this. And can you show me my
21 response? Because I remember that I didn't like his letter.
22 I don't know if it was this one. There were a couple of
23 instances where I just didn't like the way he worded it and
24 it didn't sound good, you know, so I suggested changes.

25 Q So his idea about putting this veiled threat, is

1 that what you didn't agree with?

2 A I just don't remember. I'd have to look at what
3 his draft was. I just remember it just wasn't a very good
4 letter, and I thought this is lame, we can do this better.

5 Q So was a revised version of the letter sent out?

6 A Yes.

7 BY (b)(6), (b)(7)c :

8 Q On the third paragraph it says, "As this letter may
9 mark the end of your investigation." Did you understand that
10 this could be sort of the last step you guys were planning to
11 take?

12 A I just don't remember. I'm sorry.

13 BY MR. KOTZ:

14 Q Do you remember that it took a long time to finally
15 get the formal order after the decision was made?

16 A To get the actual formal order, you mean?

17 Q Yeah.

18 A Or the process?

19 Q The process.

20 A Oh, yes.

21 Q Did it take a particularly long time?

22 A Yes.

23 Q And what was the reason for that?

24 A I think we were really looking at the

25 (b)(5), (b)(7)a and --

1 Q Did you get pushback from other offices within the
2 SEC?

3 A Yes.

4 Q Do you remember what offices particularly?

5 A No, but I know I saved all my e-mails on
6 everything, so should be able to look through. I had a
7 folder that was formal order docs, and everything is in it.

8 Q So you remember there was a lot of comments and
9 some pushback and it took a long time to finally get the
10 process moving toward a formal order?

11 A Yes.

12 Q Okay.

13 MR. KOTZ: Why don't we go off the record for a
14 second.

15 (Discussion off the record.)

16 BY MR. KOTZ:

17 Q Back on the record. Anything else you can think of
18 about Stanford, particularly in that 2005, 2006 period, that
19 we missed that you can remember?

20 A Not that I can think of.

21 MR. KOTZ: I think we're done. I would just ask
22 for the purposes of preserving the integrity of the
23 investigation that you not discuss your testimony with
24 anyone.

25 THE WITNESS: Okay.

EXHIBIT 27

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Number 24
PAGES: 1 through 20
PLACE: Securities and Exchange Commission
801 Cherry Street
Burnett Plaza, Suite 1900
Fort Worth, Texas
DATE: Tuesday, February 16, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 5:00 p.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5 (b)(6), (b)(7)c
6
7

8 Securities and Exchange Commission

9 Office of Inspector General

10 100 F Street, N.E

11 Washington, D.C. 20549

12 (202) 551-6037

13

14 On behalf of the Witness:

15 (b)(6), (b)(7)c, PRO SE

16

17 ALSO PRESENT:

18 Clayton Gerber, Postal Inspector

19 (Appearing Telephonically)

20

21

22

23

24

25

1 Quintanilla. I'm going to mark this as Exhibit 4.

2 (SEC Exhibit No. 4 was marked for
3 identification.)

4 THE WITNESS: This is another document I'm familiar
5 with. I have seen it recently. Given the date in August of
6 '03, my guess is it's likely I probably saw that in September
7 2003, but I couldn't tell you for a fact if I did or not.

8 MR. KOTZ: Let me show you one more. This is a
9 letter, anonymous letter, from insider dated September 1,
10 2003, to the NASD complaint center. This we're going to mark
11 as Exhibit 5.

12 (SEC Exhibit No. 5 was marked for
13 identification.)

14 THE WITNESS: Exhibit 5 is another document that I
15 am familiar with. I am pretty sure that this was something
16 that was given to me to read in approximately September 2003.

17 BY MR. KOTZ:

18 Q Do you remember why it was given to you to read in
19 September 2003?

20 A It was, as Spence Barasch used to call it, a tire
21 kicker, something to look over. I was asked to read it and
22 basically look at this document and perhaps one of these
23 other documents, I don't recall, and see what was publicly
24 available on Stanford. Essentially old newspaper articles,
25 anything on the internet, any databases we might have

1 regarding assets, things of that nature.

2 Q And do you remember what you did?

3 A I remember -- like I said, it was a tire kicker. I
4 had investigations which I was working on, so it was put to
5 me, when you have a minute, look over this, see what you can
6 dig up.

7 To the best of my recollection, a couple of weeks
8 after I got Exhibit 5 and whatever other information I
9 received, I probably spent maybe a day or so just looking
10 on-line to see what I could dig up regarding Allen Stanford
11 and his companies.

12 Q Do you remember anything you specifically dug up at
13 that time?

14 A I remember reading newspaper articles talking about
15 his influence over Antigua and things of that nature,
16 allegations of potential money laundering, just those sort of
17 articles about Allen Stanford. I think some questions had
18 been raised in the press prior to 2003.

19 Q But it was not conveyed to you by Spence Barasch as
20 something of a priority to work on, this matter?

21 A No, it was not.

22 Q Was it clear at the time that the investigations
23 you were working on were a priority?

24 A Yes. And just to be clear, I don't know if Spence
25 actually handed it to me. It might have been (b)(6), (b)(7)c. It might

1 have been Jeff. It could possibly have been Spence, but I'm
2 sure -- I think it's a safe assumption that Spence was the
3 person who said for me to look over it when I had a minute.

4 MR. KOTZ: Let me show you an e-mail. This is
5 dated 11/3/2003, 11:26 a.m., from (b)(6), (b)(7)c to you.
6 We're going to mark this as Exhibit 6.

7 (SEC Exhibit No. 6 was marked for
8 identification.)

9 BY MR. KOTZ:

10 Q This looks like it might be that customer complaint
11 submitted to NASD, Exhibit 5, referenced on the second page
12 of this e-mail.

13 A Okay.

14 Q Take a second to read it.

15 BY (b)(6), (b)(7)c:

16 Q I'll assert that that was the anonymous complaint.

17 A All right.

18 BY MR. KOTZ:

19 Q Does this sort of refresh your recollection that it
20 looks like it was sent from the Office of Investor Education
21 and Assistance to Spence Barasch who sent it to (b)(6), (b)(7)c
22 who sent it to you?

23 A Yes. Perhaps my time frame is a little off. Maybe
24 instead of September of '03 it was October of '03 when I was
25 looking at this.

1 Q Pretty close.

2 MR. KOTZ: Let me show you another e-mail. This is
3 dated 11/4/2003, 5:16 p.m., so the next day, from you to (b)(6), (b)(7)c

4 (b)(6), (b)(7)c . We're going to mark this as Exhibit 7.

5 (SEC Exhibit No. 7 was marked for
6 identification.)

7 BY MR. KOTZ:

8 Q This references a meeting. (b)(6), (b)(7)c says to

9 (b)(6), (b)(7)c , "Can we meet with you and (b)(6), (b)(7)c tomorrow, say
10 10:00 a.m." (b)(6), (b)(7)c references in an e-mail about a
11 call from a compliance person at Stanford, and you say, "I'll
12 be there." Obviously this was some time ago. Do you
13 remember having a meeting on this?

14 A I remember having a meeting with (b)(6), (b)(7)c and (b)(6), (b)(7)c
15 (b)(6), (b)(7)c . What I remember -- and there might have been more
16 than one meeting. What I recall is after I had looked at the
17 newspaper articles and whatnot, I went back to (b)(6), (b)(7)c . Like I
18 said, I think it was probably a few weeks after I had
19 initially received the information, wanted to tell him what I
20 had found.

21 I mean, quite frankly it wasn't anything earth
22 shattering, just some interesting articles. I remember it
23 being conveyed to me, don't worry about it, we're going to
24 refer this to reg. We're not going to work this as an
25 enforcement case.

1 BY (b)(6), (b)(7)c :

2 Q Who told you that?

3 A I think (b)(6), (b)(7)c initially told me that because I
4 believe I would have gone into (b)(6), (b)(7)c office. He was my
5 branch chief, and he was the one who told me. If I remember
6 correctly, we might have met with (b)(6), (b)(7)c shortly
7 thereafter. Jeff Cohen might have been there as well when we
8 discussed an examination referral. I guess it's possible
9 there could have been more than one meeting, but that's the
10 one I recall.

11 BY MR. KOTZ:

12 Q Did you get the sense that it was (b)(6), (b)(7)c who
13 made that decision about not to do anything enforcement wise
14 but to let the broker-dealer group go forward, or would that
15 have come from above (b)(6), (b)(7)c ?

16 A I believe it would have come from either Jeff
17 Cohen, Spence Barasch, or perhaps a combination of the two.

18 Q And we have meeting notes from (b)(6), (b)(7)c which
19 says, branch meeting, Stanford let BD exam go forward, then
20 if nothing, memo to file. Do you remember if there was a
21 memo written about this in the end? We couldn't find
22 anything.

23 A If there was, I did not play a role in drafting it,
24 and I don't believe I ever saw one.

25 Q Okay. Do you remember doing anything else

1 regarding Stanford in this time frame of 2003 subsequent to
2 that meeting that you had that you just described?

3 A No.

4 BY (b)(6), (b)(7)c :

5 Q Do you remember if (b)(6), (b)(7)c expressed any
6 concerns about Stanford being a Ponzi scheme or involved in
7 one at that point?

8 A I don't remember what he said. I think (b)(6), (b)(7)c had
9 some background with Stanford before, and that's going back
10 to your question earlier if I was aware of previous exams or
11 inquiries. I think at that meeting, I learned or got the
12 impression that (b)(6), (b)(7)c had had some experience with Stanford
13 in the past. There were always suspicions -- I mean, that
14 was my impression was the suspicion was, one, it could be a
15 Ponzi scheme, two, it could be a money laundering, drug money
16 operation or some combination of the two.

17 BY MR. KOTZ:

18 Q Do you remember any specific conversations at that
19 point about what theory to go under if you brought an
20 enforcement action, or was it simply you looked through the
21 articles, you did some work, and it was decided not to go
22 forward?

23 A What I remember is when I came to (b)(6), (b)(7)c to tell him
24 I've had a chance to look at Stanford and here's what I
25 found, that he told me pretty much right off the bat, don't

1 worry about it, it's going to exam, we're not going to work
2 this in enforcement.

3 BY (b)(6), (b)(7)c :

4 Q And did you have any understanding whether Hal
5 Degenhardt was aware of the decision not to open a MUI at
6 that point in 2003?

7 A I'm pretty sure I didn't have any interaction with
8 Hal at that time, so I couldn't tell you.

9 Q Nor indirectly that Hal signed off on this or Hal
10 is aware of the decision or anything like that?

11 A I don't know what role Hal played.

12 BY MR. KOTZ:

13 Q Anything else about that particular time frame that
14 we missed that you remember related to Stanford?

15 A I remember Jeff expressing the opinion that if it
16 were a fraud, he didn't think we would be able to prove it
17 because it was structured around an offshore bank that had
18 refused to produce documents and that he did not believe we
19 could compel those documents.

20 Q That was Jeff Cohen?

21 A Yes, and that even if we could get the records
22 regarding the portfolio of the bank, there was substantial
23 concerns regarding (b)(5), (b)(7)a .

24 Q Anything else?

25 A No.

EXHIBIT 28

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

WITNESS: Witness Number 26
PAGES: 1 through 47
PLACE: Securities and Exchange Commission
100 F Street, N.E., Room 7465
Washington, D.C.
DATE: Tuesday, February 23, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 9:33 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5 (b)(6), (b)(7)c

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8 100 F. Street, N.E.

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11

12 On behalf of the Witness:

13 RICHARD E. CONNOR, PRO SE

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1 in 2005 that while he was at the SEC he A, made the decision
2 or participated in the decision as Associate Director of
3 Enforcement for the Fort Worth district office to close a
4 matter under inquiry regarding Stanford, then in 2002
5 reviewed a complaint by a Stanford investor and made the
6 decision to participate in the decision to refer the
7 complaint to the Texas State Securities Board, and in 2002
8 received an examination report for the Fort Worth district
9 office finding that Stanford had violated numerous provisions
10 of the securities laws, and in 2003 received a complaint
11 alleging that the Stanford Group was engaged in a massive
12 ponzi scheme and participated in decisions regarding that
13 complaint, would you have informed him that he was barred for
14 life from representing Stanford?

15 A Not specifically representing Stanford, but
16 representing Stanford in a matter involving a ponzi scheme,
17 in a matter that would be considered the same matter or a
18 substantially related matter, yes. The statutory bar doesn't
19 prohibit you from representing a particular entity, it
20 just --

21 Q Right. Okay, but based on the fact that in 1998 he
22 participated in the decision to close a matter under inquiry
23 regarding allegations of a potential ponzi scheme or other
24 fraud against Stanford, in 2002 referred a complaint about
25 Stanford engaging in fraud to the Texas State Securities

1 Board, and later on reviewed and made decisions about a
2 specific complaint alleging that Stanford Group was engaged
3 in a massive ponzi scheme, that would bar him from now, in
4 2005, representing Stanford Financial Group in an
5 investigation by the SEC regarding fraud and/or a ponzi
6 scheme, right?

7 A Yes.

8 Q And so when you get information and you are asked a
9 question by a particular individual, you rely on what
10 information they provide you, right?

11 A That is part of the mix, yes.

12 Q And so at the time that Spence Barasch sent you an
13 e-mail on June 20th, 2005, he stated in his e-mail "I'm not
14 aware of any conflicts and do not remember any matters
15 pending on Stanford while I was at the Commission." But in
16 that, on some level, you rely on what he tells you about at
17 least what he recalls.

18 A Yes.

19 Q So to your knowledge, during this inquiry that
20 Spencer Barasch made, at no point did he mention to you that,
21 notwithstanding his claim that he didn't remember any matters
22 pending on Stanford while he was at the Commission, that in
23 fact in 1998 he participated in a decision to close a matter
24 under inquiry regarding Stanford, in 2002 participated in a
25 decision to refer a complaint to the Texas State Securities

1 Board regarding Stanford, and in 2003 reviewed a complaint
2 alleging that Stanford Group was engaged in a massive ponzi
3 scheme and participated in a decision about what to do about
4 that, right?

5 A I'm not -- he did not mention that to me. Yes, I
6 do not recall him mentioning that to me.

7 Q So wouldn't you say that what I have described
8 would be pretty substantial involvement in a variety of
9 Stanford-related matters over time?

10 A Yes.

11 Q Do you think that when an individual is seeking
12 ethics advice to represent a particular company before the
13 Commission, it would behoove them to inform the Ethics Office
14 of those kinds of roles that he had played previously while
15 at the Commission?

16 A Yes.

17 Q And so you say in this e-mail in Exhibit 2: "I
18 talked to (b)(6), (b)(7)c and she is fairly sure you had nothing to
19 do with the Stanford Financial Group matter but suggests that
20 I confirm this with (b)(6), (b)(7)c. I have left him a message to
21 contact me. As soon as I hear from him I will get back with
22 you."

23 And so what it looks like happened was Spencer
24 Barasch made a representation about a particular inquiry that
25 he wanted to represent Stanford about, he said that the

1 assigned attorneys are (b)(6), (b)(7)c and (b)(6), (b)(7)c. So you
2 went back to (b)(6), (b)(7)c and, I assume, (b)(6), (b)(7)c because
3 those are the attorneys that he identified, right?

4 A Yes.

5 Q But you wouldn't necessarily know that maybe the
6 same exact factual basis was the subject of previous
7 potential investigations about Stanford?

8 A I would not.

9 Q Okay.

10 BY (b)(6), (b)(7)c:

11 Q Do you recall hearing back from (b)(6), (b)(7)c?

12 A I have no specific recollection of that, no.

13 BY MR. KOTZ:

14 Q But I mean, the record seems to indicate that
15 Spencer Barasch did not represent Stanford Group in
16 connection with that matter, and that seems to indicate that
17 at some point the decision was made or the advice that you
18 gave was you can't represent Stanford.

19 A Absolutely. There came a time, and I don't
20 remember the specific dates, but upon learning more
21 information from the staff in Fort Worth, we made the
22 determination that Spence Barasch had participated in the
23 Stanford matter and that he could not participate in these
24 post-employment activities.

25 BY (b)(6), (b)(7)c:

1 Q What information, if you can recall, did you learn
2 that led you to that conclusion?

3 A I had conversations with people down in Fort Worth
4 and learned about a letter, a complaint that had come in that
5 had been sent -- I don't recall specifically whether they
6 said -- the people in Fort Worth said that the letter was
7 directly addressed to Mr. Barasch or whether it was simply
8 because of his position there he was the one that it went to.
9 But my understanding from the people there -- told me that
10 the letter did come to him.

11 There was another meeting with some other
12 regulators in the district, and I don't remember whether it
13 was the Texas state regulators or other regulators in the
14 district. The meeting, as it was explained to me, was held
15 in Austin. It was some routine meetings they had with other
16 regulators, and the other regulators, whether it was the
17 Texas state or whoever else was at that meeting, had raised
18 the issue of complaints about a ponzi scheme at Stanford, and
19 Mr. Barasch had participated in that meeting and had weighed
20 in with whatever discussions there were at that meeting as to
21 what they were doing and what the SEC was or would be doing.

22 BY MR. KOTZ:

23 Q Do you remember who told you this?

24 A I talked to -- at that time, I remember it was
25 Victoria Prescott and it was -- there were two -- I think it

1 was Julie Preuitt -- were the two that come out that I
2 basically -- I'm sorry, specifically remember talking to. I
3 don't remember exactly what order, but when I talked to them
4 at the different times they both confirmed those two aspects
5 of Mr. Barasch's participation.

6 Q And did they indicate to you what role Barasch
7 played or how he provided his opinion with respect to that
8 conference in Austin about the Stanford matter?

9 A I don't -- I can't recall with specificity the
10 exact words. I do remember them saying that he was there and
11 that he participated in the discussions that went on with
12 respect to that issue.

13 Q Do you remember anything about Victoria Prescott
14 giving a presentation at this summit meeting with other
15 regulators in Austin and Spencer Barasch coming over to her
16 after the meeting and saying, you know, "We are not going to
17 bring the Stanford matter," or "You shouldn't have presented
18 that in that way"? Do you remember anything about that?

19 A I do not have a specific recollection about that
20 one, no.

21 MR. KOTZ: Let me show you another document. We
22 are going to mark it as Exhibit 3. This is an e-mail dated
23 12/13/2006, 12:40 p.m. from Julie Preuitt to Victoria
24 Prescott. Actually, there is a previous e-mail from Victoria
25 Prescott to you dated Wednesday, December 13th, 2006 at 11:10

1 a.m.

2 (SEC Exhibit No. 3 was marked for
3 identification.)

4 BY MR. KOTZ:

5 Q So this seems to reflect what we were just talking
6 about, this meeting among regulators in Austin.

7 A Yes.

8 Q Now if you look at the date of Exhibit 2, it is
9 June 2005, and then the date of Exhibit 3 is December 2006.
10 So based on that, does it look to you like there were
11 actually two requests that Spencer Barasch went to --
12 regarding representation?

13 A That is what it looks like, yes.

14 Q I mean, it wouldn't be that you would still be
15 talking about his June 2005 request in December of 2006,
16 right?

17 A No.

18 Q So it seems as though, from this documentation,
19 that in June 2006 Spencer Barasch requested ethics advice
20 about representing Stanford Group in connection with a matter
21 that the SEC was bringing, and then came back a second time
22 in or about December of 2006, and it looks like the answer in
23 both cases was no.

24 A Correct, yes.

25 BY (b)(6), (b)(7)c :

1 Q Just to connect the dots, you said what the
2 information was that you learned, that is that there was
3 complaints that came in to Mr. Barasch about Stanford and
4 that I think it was in a meeting in which it was discussed
5 whether Stanford was a ponzi scheme. Why did that lead you
6 to conclude that he couldn't participate in further
7 representation of Stanford?

8 A Well, because those actions by Mr. Barasch would
9 constitute participation, and that matter, whether it had
10 been assigned a particular number or not, would be considered
11 a continuation of the -- that ultimately became the matter
12 that -- whatever the Fort Worth number that was assigned to
13 it that ultimately became the Enforcement investigation. So
14 it would be the issues, the parties are all the same, and so
15 that initial participation would continue right on up until a
16 formal investigation was opened and a Fort Worth number was
17 assigned to it.

18 BY MR. KOTZ:

19 Q So if Spencer Barasch participated in a
20 conversation with Victoria Prescott about -- from the SEC
21 perspective about an investigation or a possible inquiry
22 regarding Stanford Group engaging in fraud or a ponzi scheme,
23 it wouldn't be appropriate for him then to represent Stanford
24 Group on the other side after having participated in
25 conversations at the SEC about the matter, right?

1 be walled off."

2 Do you remember this disagreement, I guess, that he
3 had with you about what was "the matter"?

4 A Yes.

5 Q So tell me about that.

6 A What my understanding was -- Mr. Barasch was saying
7 that the matter that we were talking about in 2009 was
8 different from the matter that was before the Commission when
9 he was here. And one of the arguments he made was that one
10 of the officials -- I believe it was in Fort Worth -- had
11 said that this particular matter had originated or started or
12 had been brought in 2006, and if that was the case, that he
13 could not possibly have participated in the matter because he
14 had left in 2005.

15 Q And so what was your perspective on that?

16 A The perspective there is that the matter did not
17 start in 2006, and I don't know exactly what the basis was
18 for that SEC employee to say that it did. But from our
19 perspective, from the ethics perspective, the matter had
20 clearly started long before that. It had started back when
21 Mr. Barasch was here, and it was a continuation of the same
22 matter. It was a matter involving, among other things, a
23 ponzi scheme by Stanford, and that that matter had started
24 much earlier and had continued as the same matter right up to
25 the time we were talking.

1 Q And did you remember any specific conversations you
2 had with Mr. Barasch about this point?

3 A I have a recollection of some. I remember Mr.
4 Barasch was upset with our decision. He did not think it was
5 the right decision. He was -- strongly argued that the
6 matter currently in 2009 was new and was different and
7 unrelated to the matter that had occurred before he left.

8 Q Have you had occasions before where individuals who
9 left the Commission have contacted your office on three
10 separate occasions trying to represent Stanford -- I'm sorry,
11 trying to represent a client regarding a post-employment
12 question?

13 A Multiple occasions to represent someone in the same
14 matter, no, I have no recollection of something like that.

15 Q So Barasch was the only one that you recollect that
16 happened that way?

17 A That is the only one I recollect, yes.

18 BY (b)(6), (b)(7)c :

19 Q Do you recall ever getting any communications with
20 Steve Korotash around the time in '09 where Barasch was
21 seeking permission?

22 A I recall Steve Korotash being involved. What I
23 can't remember was whether I talked to him specifically or
24 whether, when I talked to some other employees in the Fort
25 Worth office, they also talked to him. I have a recollection

1 were to violate 18 USC 207?

2 A Yes.

3 BY (b)(6), (b)(7)c :

4 Q Also at some point, is there a -- did there come
5 into effect a more blanket one-year ban for senior officers
6 after leaving the Commission?

7 A Yes.

8 Q When did that go into effect? It is okay if you
9 don't know.

10 A It went into effect before Spencer Barasch left. I
11 don't remember the exact date, but it went into effect -- but
12 has been in effect a number of years.

13 BY MR. KOTZ:

14 Q Oh, so before 2005?

15 A Yes.

16 Q So what is that ban exactly for senior officers?

17 A For people at a certain level, for senior officers,
18 they are banned for one year after leaving the Commission
19 from appearing before or communicating with the Commission in
20 a representative capacity on any matter. It doesn't have any
21 relevance whether it was under their official responsibility,
22 whether they worked on the matter. It is just a one year
23 across the board -- it applies only to appearing before their
24 former agency. It is not like the prohibition in 207 where
25 you participate in the matter. That prohibits you from

1 appearing before the government. The one-year ban is
2 strictly a complete ban from appearing before your own agency
3 for one year after leaving.

4 Q And why would that not have applied in this
5 situation to what Barasch was seeking?

6 A It would have applied. It would have applied.

7 Now one of the differences is if someone is
8 seeking -- we have a number of times -- former senior
9 employees will check with us during that one year to see
10 whether they are banned because of the actual participation.
11 They want to find that out because if they are not banned,
12 they can go ahead and start working on the matter. They can
13 work on it behind the scenes and they wouldn't have to worry
14 about the firm needing to submit a waiver because of an
15 imputed disqualification.

16 But whether or not a former employee, Mr. Barasch
17 or not, participated in the matter, they would be banned for
18 that first year from actually appearing before or
19 communicating with us on that matter.

20 Q But that issue did not arise in terms of
21 consideration in the information that Barasch provided to you
22 in your decisions on clearance, right?

23 A It was not relevant because we were looking at the
24 actual participation and when we found that he had
25 participated, that would trump the one-year ban anyway.

1 people generally never to communicate until you have gotten
2 clearance because you don't want to be in a position where
3 someone might be able to say that that communication crossed
4 whatever that line is.

5 But I would not say that that -- if that is all it
6 was, was calling Jeff Cohen and saying that he had talked
7 to -- that Spence Barasch had talked to me and that I would
8 be getting in touch with him or anybody else in Fort Worth to
9 discover whether there had been any participation, that in
10 and of itself -- assuming he didn't make any argument, any
11 effort to affect the decision and the facts on the matter,
12 any arguments about that, but merely that type of a contact
13 would probably fit under the administrative or ministerial
14 type of a contact.

15 Q What comfort did you have at that point as to what
16 Mr. Barasch and Mr. Cohen had talked about? What was your
17 basis for understanding what they talked about?

18 A I just don't have a specific recollection to it, a
19 specific recollection of any actual conversations I had. I
20 cannot remember whether I even talked to -- specifically to
21 Jeff Cohen or not.

22 Q So you don't know whether conversations between
23 Barasch and Cohen crossed any lines?

24 A I don't. I don't know the substance of their
25 conversations, no.

1 BY MR. KOTZ:

2 Q Anything else about Spence Barasch or his attempts
3 to represent Stanford that you remember that we haven't gone
4 over?

5 A Nothing that I can recall, no.

6 BY (b)(6), (b)(7)c :

7 Q Did you find this request to be unusual at all?

8 A Well, I did -- the 2009. And I actually -- when I
9 got this request back in 2005, 2006, Stanford, the name
10 itself, didn't mean anything to me. It was just one of many,
11 many post-employment matters. And actually, when it came
12 back in in 2009, Stanford was on the radar, I knew what
13 Stanford was, there was a lot of press about that. I
14 actually had not even tied it back. I had no recollection
15 that it had come back in.

16 It was only after I got the request, I contacted
17 the Fort Worth people, and they of course remembered as soon
18 as I contacted them. They said "We have already decided that
19 he couldn't participate." And only then had I recognized
20 that it was the same matter. It's just the Stanford name
21 didn't mean anything to me back in 2006, but once it came in
22 again in 2009, it struck me as unusual that he would be
23 coming back for a matter that obviously he would have known
24 that he had been told he couldn't participate in the matter.

25 BY MR. KOTZ:

1 Q On two occasions?

2 A On two occasions, yes.

3 MR. KOTZ: I think we are done. The only thing I
4 would ask is in order to preserve the integrity of the
5 investigation that you not discuss your testimony with anyone
6 else.

7 MR. CONNOR: Absolutely.

8 MR. KOTZ: All right, thank you. We are off the
9 record.

10 (Whereupon, at 10:28 a.m., the examination was
11 concluded.)

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EXHIBIT 29

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)
WITNESS: Witness No. 27
PAGES: 1 through 61
PLACE: Securities and Exchange Commission
 100 F Street, N.E.
 Washington, D.C.
DATE: Friday, February 26, 2010

COPY

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

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 (b)(6), (b)(7)c

5 Office of Inspector General
6 Securities and Exchange Commission
7 100 F Street, N.E.
8 Washington, D.C. 20549

9

10 On behalf of the Witness:

11 (b)(6), (b)(7)c PRO SE (by telephone)

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1 situations it might be appropriate to have the NASD bring an
2 action instead of the SEC.

3 A Right, depending on the severity of the violation,
4 yes, sir.

5 Q And to your understanding, in this instance why
6 did -- the recommended action was to refer to the SEC's
7 enforcement division.

8 A Yes, sir.

9 Q Do you know why that was the case as opposed to
10 sending to the NASD for Stanford?

11 A Oh, with all of the violations involved, sir, and
12 the time period and the amount of money we were talking
13 about, yeah, we wanted the case. I mean that -- I mean yes,
14 sir, I believe that was the reason. We wanted the case. I
15 mean the severity of the violations and the number of people
16 involved -- oh yes, sir, we wanted the case.

17 Q Who made the decision to refer it to enforcement?

18 A It would have been either (b)(6), (b)(7)c or Julie or both.
19 I mean pretty much, sir, as we got into the investigation and
20 as we got into, you know, each day, each week, each month
21 went by, it was -- in talking to enforcement, we pretty much
22 knew that, you know, okay, this is going to be an enforcement
23 referral. That is why -- from my understanding, that is why
24 we brought the Fort Worth enforcement division in on talks
25 early in the review of these items of the CDs.

1 goes by, you know -- it is the nature of our industry, of
2 our -- I hate to say this, sir, the Commission sometimes --
3 examiners will refer great cases to enforcement, and they
4 just sit there.

5 Q Do you have any idea of why that is, as a systemic
6 issue?

7 A And I'm on the record. Okay, again, my personal
8 belief, sir -- and this is just my personal belief from being
9 in this industry since -- on the regulatory side since
10 1987 -- cases sit for a variety of reasons. Maybe
11 enforcement believes yes, there is some fraud here, but there
12 is not enough money, not worth my time. Yes, there may be
13 some fraud here, but it is not a slam dunk, we are not going
14 to try to go to court if it is not a slam dunk. Maybe they
15 do not understand the violations or the nature of the
16 violations.

17 So there are a variety of reasons, sir.

18 Q Now in Stanford it is hard to think that this
19 wouldn't be considered enough money, is that right, is that
20 fair to say?

21 A Yes, sir, yes, sir.

22 Q Do you think it is possible that there was a
23 reluctance to bring the Stanford matter because enforcement
24 was concerned that it wasn't a slam dunk?

25 A Yes, sir, that is my personal opinion.

EXHIBIT 30

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

WITNESS: Witness Number 30

COPY

PAGES: 1 through 93

PLACE: Securities and Exchange Commission

801 Cherry Street

Burnett Plaza, Suite 1900

Fort Worth, Texas

DATE: Tuesday, March 2, 2010

The above-entitled matter came on for hearing, pursuant to notice, at 9:11 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 H. DAVID KOTZ, ESQ., Inspector General

5

6

7

8

(b)(6), (b)(7)c

Securities and Exchange Commission

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Office of Inspector General

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100 F Street, N.E

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14 On behalf of the Witness:

15

JOHN K. POPHAM, ESQ.

16

Securities & Exchange Commission

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C O N T E N T S

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WITNESS

(b)(6), (b)(7)c

EXAMINATION

5

EXHIBITS:

DESCRIPTION

IDENTIFIED

1	Memo Dated 3/14/2005	17
2	E-mail Dated 4/13/2005	18
3	E-mail Dated 4/14/2005	20
4	E-mail Dated 4/18/2005	21
5	E-mail Dated 4/19/2005	24
6	E-mail Dated 4/20/2005	28
7	E-mail Dated 6/3/2005	33
8	E-mail Dated 6/12/2005	36
9	E-mail Dated 6/20/2005, 5:09 p.m.	41
10	E-mail Dated 6/20/2005, 4:14 p.m.	43
11	E-mail Dated 6/21/2005	45
12	Letter Dated July 21, 2005	
	to (b)(6), (b)(7)c	46
13	E-mail Dated 7/11/2005	49
14	E-mail Dated 8/17/2005	53
15	E-mail Dated 8/18/2005	58
16	E-mail Dated 8/29/2005	60

1	EXHIBITS:	DESCRIPTION	IDENTIFIED
2	17	E-mail Dated 9/3/2005	62
3	18	E-mail Dated 10/10/2005	67
4	19	E-mail Dated 10/26/2005	68
5	20	E-mail Dated 10/28/2005	69
6	21	E-mail Dated 11/2/2005	72
7	22	E-mail Dated 6/14/2005	82
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1 3.

2 (SEC Exhibit No. 3 was marked for
3 identification.)

4 BY MR. KOTZ:

5 Q And in this e-mail, you say, "Your memo was
6 fantastic. Will be very helpful going forward. (b)(6), (b)(7)c and
7 I are opening a MUI with hope of bringing a case quickly,
8 possibly TRO. May need some help from you and others in reg
9 to make it happen."

10 So this is further evidence that you thought the
11 memo was an excellent memo?

12 A Absolutely.

13 Q Okay. And you say in here that you and (b)(6), (b)(7)c
14 are opening the -- a MUI with the hope of bringing case
15 quickly, possibly TRO. Do you remember why you said that or
16 why you thought that at that time?

17 A Yeah. I mean, I think, in looking at the memo,
18 there was the thought that this could have been a Ponzi
19 scheme and that if, essentially, we could get kind of bank
20 records that would reflect, you know, the money basically
21 going in and then not being used for legitimate investment
22 purposes but being used to kind of pay back prior investors,
23 that, you know, we'd be able to bring a case quickly.

24 Q So would the reason that you would want to bring a
25 case quickly be that it seemed as though this was an ongoing

1 fraud and you wanted to kind of stop it as quickly as
2 possible?

3 A Sure.

4 MR. KOTZ: Let me show you the next document. This
5 is an e-mail from Victoria Prescott to you, Jeff Cohen and
6 (b)(6), (b)(7)c . We're going to mark this as Exhibit 4, and
7 it's dated 4/18/2005 at 3:47 p.m.

8 (SEC Exhibit No. 4 was marked for
9 identification.)

10 BY MR. KOTZ:

11 Q In this e-mail, Victoria Prescott talks about the
12 approach of naming Stanford for violating the NASD rule
13 relating to suitability, which she says seems easier to prove
14 than our standard 10b-5 approach. Do you remember
15 conversations about that?

16 A I -- I vaguely recall discussions about that.

17 Q And was that a good potential approach to use, to
18 name Stanford for violating the NASD rule pertaining to
19 suitability, in your view?

20 A You know, usually the NASD enforces its own rules.
21 So, you know, it's kind of uncommon for us to bring a case
22 unless the NASD, I think, isn't either willing to bring a
23 case or I guess there's a strong public interest in us doing
24 so.

25 You know, I know we kind of contemplated this. I

1 also know we ended up talking to the NASD, too, subsequently.
2 And, so, I -- you know, I guess in my view at that time, I
3 probably was more focused on actually just trying to bring a
4 straight-up case as opposed to bringing a case of an NASD
5 suitability-type violation.

6 Q But was there anything that would prohibit the SEC
7 from bringing a case based on NASD Rule 2310 as long as they
8 could prove that it was in the public interest?

9 A Not that I'm aware of.

10 Q Okay.

11 A You know, you'd still have to have the case, I
12 suppose, but assuming you had all the pieces.

13 Q Okay. Do you remember any conversations with
14 anyone else in Enforcement or anyone in OC or Market
15 Regulation about this suitability approach?

16 A You know, I know -- I think we did talk to -- you
17 know, Victoria, I know, I think, talked to other people in
18 D.C., maybe Market Regulation. I think -- I just seem to
19 recall that.

20 But, you know, unfortunately, when I kind of left
21 the SEC for two years and -- I thought I really left. And,
22 so, this is all kind of coming back. You know what I mean?
23 You know, it wasn't like this stuff was kind of percolating
24 around me for the past few years. So I kind of -- 2005, when
25 I left, I thought I was done.

1 So I don't have a great recollection, but I seem to
2 recall having discussions about this, and I think it was
3 taken up to Washington, D.C., to the best of my recollection.

4 Q Okay. You don't remember what Washington, D.C.'s
5 perspective on it was?

6 A I don't.

7 Q Do you remember ever talking to (b)(6), (b)(7)c
8 (b)(6), (b)(7)c, (b)(6), (b)(7)c or anyone on the investment adviser
9 side who had done exams?

10 A I think we had talked to them.

11 Q Okay. Do you remember if there was any discussion
12 about bringing a case against Stanford for violating Section
13 206 of the Advisers Act?

14 A I just don't remember.

15 Q Okay. You don't remember any such conversations?

16 A I mean, I don't -- I recall -- I mean, (b)(6), (b)(7)c is a
17 pretty sharp guy, you know, and I tend to talk to him about
18 stuff once in a while. So it's possible I may have talked to
19 him about that. I just -- I just don't remember if that came
20 up.

21 Q Okay.

22 A That didn't seem to be the -- kind of the thrust of
23 what we were looking at for sure.

24 MR. KOTZ: Let me show you the next document that
25 we're going to mark as Exhibit 5. This is an e-mail from

1 Victoria Prescott to you with a copy to Julie Preuitt and
2 (b)(6), (b)(7)c . We're going to mark it as Exhibit 5, and
3 it's dated 4/19/2005 at 11:23 a.m.

4 (SEC Exhibit No. 5 was marked for
5 identification.)

6 BY MR. KOTZ:

7 Q And at the bottom of this e-mail string, you say to
8 Victoria Prescott, "OIA is seeking some info on Stanford. Do
9 you mind if I forward your memo to them?" She says, "I don't
10 mind."

11 Do you remember first communications with OIA,
12 Office of International Affairs?

13 A Yes.

14 Q Okay. What do you remember about that?

15 A Well, I remember, obviously, trying to -- you know,
16 when this thing was opened up, trying to bring the case and
17 hoping to bring the case quickly and looking to OIA to assist
18 us in getting records out of the bank in Antigua. So very
19 early on in the inquiry, you know, we reached out to
20 International Affairs and essentially tried to get their
21 assistance in obtaining information from the regulator down
22 there.

23 Q And did you get any assistance from OIA?

24 A Yes. I mean, OIA was -- you know, to be honest, it
25 took a little longer than I would have liked, but they --

1 Q Okay. Was there any thought at that time to get
2 someone at the Office of Economic Analysis to present some
3 kind of expert opinion that described how improbable it was
4 that Stanford was able to achieve these returns with CDs
5 based on the investment strategy he said he was using?

6 A I think that's why we were looking to contact --

7 Q Okay.

8 A -- that office.

9 Q Did you get any expert analysis from the Office of
10 Economic Analysis?

11 A I just don't remember.

12 Q Okay. But you would agree that, at least based on
13 the information you received from the examiners --

14 A Uh-huh.

15 Q -- Stanford's returns on his CDs were extremely
16 unlikely and improbable based on the investment strategy he
17 was using?

18 A I guess I would say that, you know, based on their
19 report and looking at those returns, you know, I thought we
20 needed to look into it.

21 Q Okay. Do you think it would have been helpful to
22 have someone give an expert opinion as to the unlikeliness or
23 improbability of the returns as part of a case that you
24 brought against Stanford?

25 A Sure.

1 Q But at least in the time you were working on it,
2 you don't remember that that was ever --

3 A I don't. I mean, I -- I know that, obviously, that
4 was an issue kind of we were looking at. I don't remember
5 what the Office of Economic Analysis did.

6 Q If anything?

7 A Right.

8 Q Okay.

9 A Now, Victoria -- I would -- what I would say is if
10 you're -- you know, Victoria Prescott, I think, would be a
11 good person to talk to about that.

12 MR. KOTZ: Let me show you the next one. This one
13 we're going to mark as Exhibit 6. This is an e-mail from you
14 to Jeffrey Cohen, 4/20/2005, 12:20 p.m.

15 (SEC Exhibit No. 6 was marked for
16 identification.)

17 BY MR. KOTZ:

18 Q And at the bottom of this e-mail string, there's a
19 communication between you to a variety of people --

20 A Uh-huh.

21 Q -- Wednesday, April 20, 2005, and you talk about
22 your conversations with OIA. And you note that the new
23 government is -- that Stanford used to be very close to
24 government in Antigua. Within the past several months, the
25 new government has taken control of Antigua. The new

1 identification.)

2 BY MR. KOTZ:

3 Q And below it is an e-mail from you to Jeff Cohen
4 about these questionnaires that were sent out to both U.S.
5 and foreign investors.

6 A Uh-huh.

7 Q Do you remember that, sending those questionnaires?

8 A I do.

9 Q Okay. What was the reason for that?

10 A Well, you know, we were looking to identify some
11 clear misrepresentations that we could kind of hang our hat
12 on to bring a case. And, so, the thought was, you know,
13 unlike a lot of Ponzi schemes that have collapsed when you've
14 got investors calling you and, you know, they can't get their
15 money out or there's clear misrepresentations. I mean, here,
16 I mean, we just didn't have that.

17 So we were trying to in, I thought, somewhat a
18 creative fashion, to kind of prime the pump a little bit and
19 send out a questionnaire to not only U.S. investors, but to
20 foreign investors to see essentially, you know, hey, were
21 they -- (b)(5), (b)(7)a

22 (b)(5), (b)(7)a And if that's the case, obviously, it would be
23 real easy to say that's, you know, clear misrepresentations,
24 and we could proceed along those lines.

25 So that was the rationale, I think, is to kind of

1 see, hey, look, what are these people being told. You know,
2 develop leads, identify misreps. And, so, that's why we
3 ended up sending out the questionnaire.

4 Q But isn't it the case that while a Ponzi scheme is
5 ongoing, you're going to have a hard time getting investors
6 to complain about it because they're still getting paid?

7 A Right. I mean, and that's -- you know, on some
8 level -- and I'm not saying -- you know, I mean, I think as
9 it's ongoing, yeah. We weren't getting that kind of, you
10 know, like the sky is falling and, you know, now, okay, this
11 is something that we're going to be able to move quickly on.
12 I -- you know, we've spotted the issues and can go.

13 You know, here, that wasn't the case. I mean,
14 obviously, this was ongoing. It was -- you know, it seemed
15 to have operations. So by sending out these questionnaires,
16 I mean, a couple of things could have happened, and, you
17 know, on some level, you know, sending out those
18 questionnaires could have triggered a little bit of -- I
19 don't want to say a run on the bank, but, oh, geez, the SEC
20 is investigating this and pull my money out. And now, all of
21 a sudden, you've got people that can't get their money out.
22 They're being, you know, lulled. Oh, you know -- you know,
23 we've got -- you know, all of the accounts are frozen because
24 of one reason or another.

25 I mean, that just -- unfortunately, I guess, it

1 didn't trigger something like that, but I think we were
2 looking to essentially get leads, see if there are any clear
3 misreps being told to these people and, you know, I guess
4 beat the bush a little.

5 BY (b)(6), (b)(7)c :

6 Q And what did you find?

7 A You know, I don't -- I don't recall the specifics,
8 but I think in broad strokes, my understanding is that those

9 (b)(5), (b)(7)a

10

11

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MR. KOTZ: Let me show you the next document.
15 We'll mark this as Exhibit 8. This is an e-mail dated June
16 12, 2005 at 1:09 p.m. from you to (b)(6), (b)(7)c .

17

18

(SEC Exhibit No. 8 was marked for
identification.)

19

BY MR. KOTZ:

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23

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Q And in the e-mail string below, you send an e-mail
to Jeffrey Cohen on Friday, June 10th, saying, "MUI converts
on Tuesday." And if you look at the previous e-mail, you
also reference, "The MUI, however, converts on approximately
6/12?"

25

A Uh-huh.

1 We'll mark it as -- June 21, 2005. This is an e-mail from
2 you to (b)(6), (b)(7)c, 8:56 a.m., which we're going to mark as
3 Exhibit 11.

4 (SEC Exhibit No. 11 was marked for
5 identification.)

6 BY MR. KOTZ:

7 Q Now, (b)(6), (b)(7)c sends you an e-mail, "We just received
8 from the DOL (OSHA) a copy of Sarbanes-Oxley whistle-blower
9 complaint about this firm. This may be what prompted them to
10 try to retain Spence. Is there an open SEC investigation at
11 the firm?"

12 And then you reply, "We have an open
13 investigation."

14 A Uh-huh.

15 Q Do you remember anything about a whistle-blower
16 complaint?

17 A You know, I remember just generally, you know, we
18 had interviewed some investors and people affiliated -- you
19 know, I guess former employees of Stanford. You know, in the
20 e-mail, I reference, I guess, that (b)(6), (b)(7)c is the attorney
21 assigned to the matter, so she might, you know, know more
22 about it.

23 Q But you don't remember talking to this particular
24 complainant?

25 A I don't know who the complainant was. I mean, I

1 guess I don't recall.

2 Q Okay. Okay.

3 A But, you know, (b)(6), (b)(7)c might.

4 MR. KOTZ: Let me show you the next document. This
5 is a memorandum dated July 21, 2005 from Victoria Prescott to
6 (b)(6), (b)(7)c, and we're going to mark this as Exhibit 12.

7 (SEC Exhibit No. 12 was marked for
8 identification.)

9 BY MR. KOTZ:

10 Q And do you recall at that time that the SEC made a
11 referral to the NASD about the Stanford matter?

12 A I do.

13 Q What do you recall about that?

14 A I think this was along the lines of -- you know,
15 Victoria had identified possibly enforcing the NASD's rules,
16 and I think kind of as a result of that and seeing that that
17 might be something that the NASD itself might want to look
18 into and that obviously it involved one of their member
19 firms, that we had flagged it for the NASD and probably with
20 the idea, too, that, you know, the more resources to bear on
21 it might again yield some positive results.

22 Q Okay. The information we received about this
23 matter was, at that point in time, the SEC had basically made
24 a determination that they were not going to do -- or do
25 further investigatory work, and, so, therefore, they were

1 Q Okay. But you didn't have much hope that they
2 would voluntarily give you documents, right?

3 A Probably not.

4 Q But the fact that you note that later Stanford
5 might implode, does that demonstrate at the time you were at
6 least worried that this was a Ponzi scheme which would
7 eventually unravel?

8 A Sure.

9 Q Do you remember efforts to reach out to criminal
10 agencies in 2005, other than the FBI agent in Houston that
11 you reference in here, about Stanford?

12 A You know, like I said, I know International Affairs
13 had, you know, communications with the Department of Justice,
14 Treasury and a -- you know, a liaison for the IRS's criminal
15 investigation division.

16 Q But you -- other than the FBI agent, you didn't
17 participate in any of those discussions?

18 A I don't know if I was on any of the -- I may have
19 been on a call with one of these -- you know, I know there
20 were efforts undertaken in that direction. I just don't have
21 a real clear recollection as to who did what. I mean, I know
22 what International Affairs -- looking at some of the e-mails,
23 what they were doing.

24 I have a vague recollection of a call with somebody
25 who seemed to be like almost a person -- and I don't know --

1 is the lawyer, the next time he's representing somebody and
2 you make a request for documents, well, tell us what the
3 investigation's about. Well, you know, we don't do that.
4 Well, you did with Stanford. I mean, you gave them a written
5 description of what you were looking at and what possible
6 violations you were considering. So now you want to get
7 information from this client, you've got to do the same
8 thing. So that was kind of the concern.

9 Q And there is a reference in this 8/17/2005 e-mail
10 to, "As this letter may mark the end of your investigation, I
11 think it makes sense we think long and hard about the type of
12 letter we wish to send."

13 A Uh-huh.

14 Q Do you recollect this was kind of the last act that
15 was going to be done, sending the voluntary request, and,
16 then, if he didn't get anything, that the investigation would
17 likely be closed?

18 A I don't know. I mean, I remember, obviously, that
19 the -- getting the bank records was, you know, an important
20 piece of the puzzle, and to the extent we were unable to get
21 those bank records either from the bank or from the regulator
22 because it was a foreign bank, that it was going to make a
23 case very difficult.

24 Q And, so, do you recall that it was Jeff Cohen's
25 perspective that unless you could get these documents, at

1 this stage, voluntarily from the bank, the matter should be
2 closed?

3 A Yeah. I mean, I just don't -- I don't remember. I
4 mean, I knew generally his view of the case, but I don't know
5 if there was a specific, you know, point in time. But I
6 guess I, you know, like I said, kind of had a general view of
7 what he thought about.

8 Q Okay. But you don't remember kind of setting out
9 this letter as kind of being the last act?

10 A Well, I think on some level, it was a -- you know,
11 look, we're trying to get the bank records. If we can't get
12 them from International Affairs through the process of going
13 through their local regulator, we can't get them this way,
14 you know, I'm sure we're going to have to really think about
15 what we're doing because it's going to be, you know, in our
16 opinion and, frankly, in my opinion at the time, too, you
17 know, probably impossible to bring a Ponzi scheme case or
18 extremely difficult to bring that kind of a case without
19 having some documentation about, you know, where the money
20 was going.

21 Q Is it generally very difficult to bring a Ponzi
22 scheme case sort of before the Ponzi scheme begins to
23 unravel?

24 A I don't think that's as critical as the -- you
25 know, I guess there's a number of different -- you know --

1 point in time, the decision was made to have the NASD follow
2 up, pursuant to that referral that we discussed earlier,
3 rather than the SEC bring the case? At least that was the
4 intention of Jeff Cohen?

5 A I think that's right, that NASD was going to -- you
6 know, as I understood it, I guess, that, you know, the NASD
7 would deal with kind of the secondary issues and --

8 Q What did you mean by secondary issues?

9 A I suppose that would be like their violations of
10 their rules. You know, one just kind of backdrop, one
11 concern that I -- that I had was that if the SEC were to take
12 action over some, let's just say, technical violation that
13 didn't shut down the case, I thought that that would -- or
14 shut down the operation, that that, in fact, could do more
15 harm than good in the sense that, look, the SEC's been
16 investigating us and now all -- you know, after doing this,
17 all they have is, you know, saying that we need to do this
18 little thing differently and, you know, that that would
19 actually have the, you know, potential impact of, you know,
20 making investors more comfortable with it as opposed to us.

21 So that was just something, a little bit of a
22 backdrop, in my mind, as to why, you know -- you know, I
23 thought if the SEC was going to do a case, I wanted to see a
24 case that would be a full-blown case that would shut it down
25 as opposed to a technical --

1 Q Okay.

2 A -- violation that would keep it operational and --

3 Q Of course, if the SEC didn't bring a case, it would
4 be kept operational anyway, right?

5 A That's true.

6 BY (b)(6), (b)(7)c :

7 Q I'm sorry. If I can --

8 A Sure.

9 Q Let me understand -- so just hypothetically, if the
10 SEC could have brought a case that would shut down the sales
11 of the CDs by the broker in Houston, would you consider that
12 a technical case that wouldn't --

13 A No. That's not what I'm talking about. I'm
14 talking more like I think there was some discussion about the
15 disclosure statements going to foreign investors or something
16 like that. That's kind of the stuff I was talking about.

17 Q Okay. So hypothetically, if the SEC could have
18 brought a case, maybe not have been able to make the case
19 directly against SIB, you know, to basically prove a Ponzi
20 scheme case --

21 A Right.

22 Q -- but could have brought some other kind of case
23 that would have shut down sales of the CDs by the U.S.
24 broker-dealer and prevented future sales of -- by any
25 Stanford affiliated entity in the U.S., would that have been

1 a case that, in your opinion, would have been worth bringing?

2 A I think so, you know. Sitting here today, I don't
3 know, you know, everything that transpired back when we were
4 looking at it, but if you could have brought a case, I think,
5 that shut down the sales, that would have been good.

6 BY MR. KOTZ:

7 MR. KOTZ: Let me show you the next document. This
8 is an e-mail from you to (b)(6), (b)(7)c, 11/2/2005. I'll
9 mark it as Exhibit 21.

10 (SEC Exhibit No. 21 was marked for
11 identification.)

12 BY MR. KOTZ:

13 Q And in this e-mail string, (b)(6), (b)(7)c is
14 talking about craziness of Stanford case and her preparing a
15 memo. I mean, was there a considerable amount of frustration
16 on the part of (b)(6), (b)(7)c and perhaps others regarding the
17 Stanford investigation?

18 A You know, I don't know if -- if I could really say.
19 I mean, it looks like by some of her e-mails, you know, the
20 terminology, that that was --

21 Q Were you aware of any issues that (b)(6), (b)(7)c
22 had working for Jeffrey Cohen?

23 A Nothing other than maybe, you know, just general
24 issues because, you know, (b)(6), (b)(7)c, if
25 that makes any sense. I mean, I don't have any, like,

1 specific --

2 Q Well, what were the general issues of working with
3 Jeff Cohen?

4 A (b)(6), (b)(7)c

5 --

6 Q In what way?

7 A -- (b)(6), (b)(7)c

8 (b)(6), (b)(7)c
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(b)(6), (b)(7)c

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16 Q Okay. Did you have any communications with anyone
17 about Stanford after you left the SEC?

18 A No. I mean, not until maybe returning to the SEC.

19 Q Right, right.

20 A And then I would have -- and even that would have
21 been very minimal, but, you know --

22 Q After you left the SEC, did you ever learn what
23 happened with the decision to go forward with the Stanford
24 investigation? You know, there was this disagreement between
25 Julie Preuitt and Jeff Cohen. Did you ever learn how that

1 was resolved?

2 A You know, after I returned to the SEC, you know, I
3 found out that obviously the investigation was never closed
4 and that, you know, there was a -- you know, kind of a battle
5 between Jeff and Julie and Julie won.

6 Q Okay. But you didn't hear about that, you know, at
7 the time, shortly after you left the SEC?

8 A Not shortly after. I mean, before I was leaving, I
9 think I was hearing that that was kind of happening. I don't
10 think I -- I probably left, I'm thinking, before a decision
11 was made, but I knew that, you know, at the time I was
12 leaving, and I probably might have even been out of the
13 office. But I knew that -- you know, like even one of these
14 e-mails suggests there -- you know, there's a meeting with
15 Julie, and my guess was that, you know, they were going back
16 and forth about, you know, what was going to happen.

17 Q Okay. Let me ask you another question. One of the
18 things that has come up in a lot of our interviews has been
19 that there's generally some pressure on regional offices,
20 like Fort Worth, to show stats of how many cases they've
21 brought. Is that your understanding at the time you were
22 here or even now?

23 A That there is pressure?

24 Q Yeah, that it's important for a regional office to
25 show that they've brought X number of cases per year in order

1 to show that they're, you know, productive.

2 A Sure.

3 Q Okay. And that because of that, there were
4 occasions where enforcement lawyers would want to take on
5 more simple, uncomplicated cases rather than a case that had
6 a lot of difficulties and complications because it would take
7 longer to bring a case, and, therefore, they would be able to
8 show fewer cases brought that year?

9 A I guess what's the question?

10 Q Is that something that you understood was going on?

11 A You know, I'm just thinking about it because it's
12 kind of a tough question to answer. I mean, I think it was
13 -- you know, it's my understanding, obviously, that the
14 regional offices, one of the ways that they're evaluated is
15 by how many cases they bring, and I'm sure part of the
16 equation also is the quality of the cases that they bring.
17 But, you know, there is, you know, how many cases, how many
18 stats. So I think that is kind of -- since they're being
19 measured by it, I think that's something that's considered to
20 be important.

21 You know, as far as working on cases, there's also
22 a tension, I think, between -- you know, it's kind of there's
23 only so many hours in the day, and, you know, you could be
24 working on this case and, you know, if this is a very
25 time-consuming case, complex case that may or may not result

1 in an eventual -- you know, and I say case. I really should
2 be talking more investigations.

3 But you could work on this investigation, that, you
4 know, will -- may take a lot of time, a lot of effort, may or
5 may not result in an actual case being filed, you know, or
6 there's -- you know, as you know, I mean, we're -- there's,
7 you know, things you could just -- you could pick up and
8 bring because, I mean, there's just so much out there and we
9 have so much in terms of being limited in our resources. So
10 there is that tension.

11 I don't know how much, on an individual basis, an
12 attorney would kind of say, you know what, I'm just going to
13 get and do these cases for the stats as opposed to work on
14 this other one. You know, I don't know. I mean, like I
15 said, I mean, there is some interest in moving cases and
16 bringing cases or bringing in -- moving investigations and --
17 and bringing cases, and how that tension plays out, I don't
18 know if I could really give you a good answer.

19 Q Was at any point in time it ever conveyed to you by
20 either Hal Degenhardt or Spence Barasch or Jeff Cohen the
21 importance of that regional offices are judged by the number
22 of cases they bring?

23 A I don't think in a direct way.

24 Q But indirectly?

25 A Well, I mean, I think indirectly, you know, there

1 is -- you know that they're evaluated that way and, you know,
2 what the stats are and how the numbers look. So, I mean, I
3 think there is -- that's, you know, something I understood.
4 I just couldn't tell you how I really came to that
5 understanding, other than just being in the office. You know
6 what I mean?

7 BY (b)(6), (b)(7)c :

8 Q Did you notice any difference in emphasis on
9 bringing a quantity of cases when you came to Fort Worth as
10 opposed to when you were in Washington?

11 A Right. You know, I'll tell you, I -- you know, if
12 I had an observation, it was, frankly, that this office
13 brought a lot more cases, but not so much in the sense that
14 it was problematic, like, you know, we're just blowing off
15 cases. I mean, they had a lot of, you know, kind of novel
16 cases here and different things like that. But I just -- you
17 know, honestly, I -- my assessment was coming down here, it's
18 like, man, these guys are go-getters.

19 BY MR. KOTZ:

20 Q But, I mean, Fort Worth, in some ways, was
21 well-known for bringing a lot of cases. Is that right?

22 A Yes.

23 Q And that was a source of pride within the office?

24 A Correct.

25 Q All right. Can you give us two minutes?

1 A Sure.

2 MR. KOTZ: Why don't we go off the record.

3 (A brief recess was taken.)

4 MR. KOTZ: Go back on the record.

5 BY MR. KOTZ:

6 Q I'm going to ask you about one other document
7 again. A colleague refreshed my recollection as to testimony
8 we got elsewhere. This is Exhibit Number 17, the e-mail
9 where Jeffrey Cohen says, "close the case."

10 A Yeah.

11 Q Who did you understand made that decision to close
12 the case? Was that Jeffrey Cohen, or was that you?

13 A That would be Jeff, I think, looking at the
14 language in my e-mail.

15 Q Okay. And wouldn't it be fair to say that Mr.
16 Cohen made that decision, you know, in his capacity as your
17 supervisor?

18 A Yes.

19 Q Okay. And, so, to say that he only made that
20 decision because you recommended it, would that be accurate,
21 do you think?

22 A I don't believe so, especially given the fact that
23 I kind of fall back and I'm not even privy to the discussions
24 with him and Julie about what to do with the case, and I'd be
25 surprised if he was hanging his hat on the fact that, you

1 know, I had basically made a suggestion. My guess is he was
2 arguing the merits of it.

3 Q But your understanding was that Jeff Cohen decided
4 to close the case because he felt that was appropriate, not
5 because he was deferring to you, who had recommended it?

6 A Right. I mean, he -- yeah, absolutely.

7 Q Okay.

8 A It wasn't a situation where he says, you know, (b)(6), (b)(7)c
9 since, you know, that's what you think, that's what we're
10 going to do and that's it. No. I mean, it was more of,
11 look, there's all these issues and we shouldn't be doing this
12 and here is, you know --

13 Q Okay. You said that at a certain point in time,
14 there was a change in counsel. There was Wayne Secore, then
15 this guy Sjoblom for Stanford?

16 A Right. That's what the e-mails reflected, correct.

17 Q And that during that time period, Barasch was
18 seeking to represent Stanford. So do you think that that --
19 that Barasch might have been the first kind of candidate to
20 succeed Secore, and, then, when he wasn't allowed to
21 represent them, then they went to Tom Sjoblom?

22 A You know, I just -- I have no idea. Obviously, we
23 can look at the timing of those e-mails and see a little bit,
24 but I just -- I just don't know the chronology of when he was
25 looking to retain a lawyer and --

EXHIBIT 31

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-516
OIG-516)

COPY

WITNESS: Number Two

PAGES: 1 through 43

PLACE: Securities and Exchange Commission

100 F Street, N.E., Room 2465

Washington, D.C. 20549

DATE: Friday, October 2, 2009

CD TRANSCRIPTION

The above-entitled matter came on for hearing at
12:45 p.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3

4 On behalf of the Securities and Exchange Commission:

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(b)(6), (b)(7)c

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P R O C E E D I N G S

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(b)(6), (b)(7)c : Okay. This is an October 2nd interview with (b)(6), (b)(7)c, and I'm talking to Julie Pruitt, who is with our exam staff in Fort Worth office. It is now 12 --

MS. PRUITT: I'm not with the exam staff, but --

(b)(6), (b)(7)c : Oh, I'm sorry. Well, you work in the Fort Worth office. Is that good enough for now?

MS. PRUITT: Yes.

EXAMINATION

BY (b)(6), (b)(7)c :

Q Okay. It's now 12:45 Eastern time. I've been talking to Ms. Pruitt for about five minutes when I realized she had information that I would like to record. So I'm going to go back over it, just to try to summarize what I understand that you've already told me, Julie, and then see if we can -- please correct me if I'm wrong or add anything.

My understanding is, is that you were involved in a 1997 exam that led to your suspicion that Stanford was lying -- had lied to the examiners and was stealing from his clients.

A No, no. Had -- was making misrepresentation to his clients.

Q Misrepresentations to his clients, okay. And stealing their money? Is that --

1 A Yes.

2 Q Okay. That you made a referral to enforcement and
3 that the staff pushed hard to get enforcement to do something
4 what that referral. You said at that time the practice was
5 not to do separate written referrals but to just give
6 enforcement a copy of the exam report and then discuss that
7 report with them and why you thought there should be an
8 enforcement investigation. As I understand it, on the basis
9 of that report and referral, enforcement in Fort Worth did
10 open a MUI sometime in '98; is that correct?

11 A Yes.

12 Q Okay. Now, just going back just real quick,
13 question I didn't ask you before, how would I go about
14 getting a copy of the exam report from '97, is that --

15 A It's on the OC website.

16 Q On the OC website? Okay. And then I'll
17 just -- you had -- and then the next thing we talked about
18 was you mentioned a conversation recently with Spence Barasch
19 about why -- where Mr. Barasch was sort of letting you know
20 why he had decided to close that MUI in 1998. And could you
21 just tell -- just sort of start over from that and tell me
22 about that conversation and what you learned in that
23 conversation.

24 A He just said he asked Wayne Secore if there was a
25 case there and Wayne Secore said that there wasn't. So he

1 was satisfied with that and decided not to pursue it further.

2 Q Now, this conversation with Mr. Barasch that where
3 he told you this --

4 A Oh, my gosh, it's all of this -- I'm sorry. He's
5 not going to be very satisfied if this gets anywhere. But
6 anyway, I think it's important information. It was appalling
7 to me.

8 Q You had a -- this conversation with Mr. Barasch was
9 in late July or August of this year, 2009, correct?

10 A Yes.

11 Q In New Orleans at some kind of social gathering; is
12 that correct?

13 A Yes.

14 Q Okay. And Mr. Secore at the -- so he told you that
15 back in '98 he asked Mr. Secore if he thought there was
16 anything wrong at Stanford based -- you know, related to the
17 types of issues the exam staff had raised, and Mr. Secore
18 said no, so he decided not to pursue it; is that correct?

19 A What he -- what he told me was that he asked if
20 there was a case there and Stanford said there was
21 nothing -- I mean and Secore said there was nothing there.

22 Q And who was Secore at that time?

23 A Well, I believe Secore was the counsel for -- I
24 don't know which Stanford entity. I assume the
25 broker-dealer, and Wayne Secore used to be the head of our office.

1 Q Uh-huh, and Mr. Secore was an outside counsel or he
2 worked at Stanford or he worked at a law firm?

3 A As far as I know, he's always worked at his own law
4 firm.

5 Q Okay.

6 A I don't think he was ever inside counsel for
7 anybody. So somebody else told me they thought he
8 was -- because I couldn't figure out why Barasch would ask
9 Secore, what did he have to do with it and somebody else
10 reminded me they thought that he'd been the counsel at that
11 time.

12 Q Okay. Okay. And then you also -- just kind of
13 following up on the Barasch thing, you alluded, I think, to
14 when Barasch left the SEC and approximately when was that?

15 A 2005.

16 Q Okay. That he in private practice had tried to do
17 work for Stanford; is that correct?

18 A Yes.

19 Q And he told the ethics office that he really had no
20 prior involvement with Stanford in order to get --

21 A That's my understanding of what he told them.

22 Q Okay. Did he, in fact, represent them? Do you
23 know?

24 A He did not because twice, I advised them -- I had
25 forgotten some other stuff, the earlier stuff. I just relied

1 on the current stuff.

2 Q Right.

3 A And we had recently had a meeting shortly before he
4 left, a summit meeting with other state regulators and FINRA,
5 regarding our findings at Stanford and how we were going to
6 refer it over and what our concerns were and our potential
7 problems. And Barasch had pooh-poohed our stuff openly at
8 the meeting, and then afterwards, I believe he had a
9 conversation with Victoria Prescott where he, again, I think
10 gave in more detail to her why he thought, you know, our
11 theories were all stupid.

12 Q What time frame was this, this meeting with FINRA?

13 A Oh, within a few months of him leaving. I've given
14 that specific information to -- Victoria keeps way
15 better -- easily accessible in this stuff.

16 Q Oh, so this was -- he was at a meeting when he was
17 in private practice?

18 A No. This was in a meeting just before he left --

19 Q Just before, I see.

20 A -- as an associate and this is why I used why he
21 did know something.

22 Q All right. Okay.

23 A Because of this meeting which we went into a fair
24 of detail and -- at the meeting and then he talked to
25 Victoria about it afterwards. It was very clear to us he

1 wasn't going to accept it. That's why we waited till after
2 he left the Commission in '05 to go ahead and refer it over,
3 so he couldn't kill it again.

4 Q Okay. Victoria Prescott, she's in the ethics
5 office; is that correct?

6 A No. She's the other person that dealt with me and
7 her in the ethics dealt -- she's in our office in
8 the -- she's an attorney advisor in the exam program.

9 Q Okay.

10 A And she was -- she was the one that lead the
11 discussion at the -- at the summit meeting that we called
12 them where Barasch was at and we explained our case and our
13 basis for our upcoming referral to enforcement against
14 Stanford.

15 Q Okay.

16 A And so the ethics, when he -- after he left the
17 Commission, he tried to represent them in the -- in -- you
18 know, he had to get approval from the ethics office. And
19 Victoria and I gave information to the ethics office based on
20 that very late set of circumstances just for that one reason
21 alone why he shouldn't be allowed to represent Stanford.

22 Q Okay. So this meeting with FINRA where you tried
23 to get them to do something --

24 A No, no, this wasn't a meeting trying to get them to
25 do something. This was a meeting -- it was information. We

1 do a lot of information sharing with FINRA and the states and
2 what we're trying to do and what our -- we just openly share
3 a lot of information, so nobody --

4 Q Right.

5 A -- is repeating the same work and see if they have
6 any info and stuff like that.

7 Q Right. Okay. I'm trying to fit it in. Are you
8 aware that FINRA's report on its Madoff and Stanford
9 investigations is up on their website today? Have you seen
10 that?

11 A No, I haven't seen it. It'd be very interesting to
12 see it because you know at one point in time that was
13 something that they wanted to do. They wanted to get rid of
14 it in enforcement. I don't know what all they told you, the
15 investigator, but they were trying to get rid of it,
16 enforcement. And I think -- I mean, Victoria is so much
17 better at these details. I'd have to go back and try to look
18 at notes, but they wanted to refer something over. I think
19 it was Jeff Cohen. I mean, there's so much information here.

20 Q Okay. Well --

21 A But anyway, they didn't -- enforcement, you know,
22 didn't want to do the case and kept trying to kill it.

23 Q Right. Well, are you referring to the '98 MUI or
24 are you referring --

25 A I'm referring now to the more current one, the --

1 A I wasn't trying to get rid of it or get anybody to
2 do anything.

3 Q Okay.

4 A But I don't remember. I mean, I haven't -- I
5 haven't looked at their reports, so I don't know.

6 Q What was your sense of Barasch -- besides
7 Degenhardt and Barasch, was there anyone else there from the
8 SEC enforcement program?

9 A I mean, I'd have to look at the notes.
10 Occasionally, (b)(6), (b)(7)c came. I -- and Jeff Cohen. I mean,
11 I'd have to look. I don't know if either one of them came.

12 Q Okay. And what was the reaction either -- what was
13 the reaction sort of out of the room with the enforcement
14 folks and you, you know, when --

15 A I didn't have the discussion or I don't recall it.
16 Victoria had more discussion, I think, with Barasch regarding
17 it after the meeting.

18 Q Okay.

19 A Barasch was just kind of ignoring us during the
20 meeting and looked kind of, I don't know, annoyed or
21 distracted or just kind of pooh-poohing it, you know. And I
22 think they got a little bit more into that afterwards, and
23 that's why we found out when he was leaving, you know, so we
24 could avoid a repeat of before, we waited until after he left
25 to actually send over the enforcement memo. So really, it

1 A He just couldn't be possibly investing the money as
2 he said he was and making the returns he was making.

3 Q Okay. Okay. Well, I'd say your gut was pretty
4 accurate.

5 A I wrote a memo about when, you know, they tried to
6 close it. It was kind of the same thing. I worked really
7 hard to keep that case from getting closed. It's very
8 difficult watching them all run around and pat themselves on
9 the --

10 Q Is this the '98 case you worked --

11 A No, this is -- I worked hard then. I worked even
12 harder in '05. I can't tell you how hard.

13 Q Okay. Well, the '98 case -- so you said you wrote
14 a memo to keep them from getting it closed, is that --

15 A That was in '05.

16 Q Okay. So you were successful, although I gather
17 you think they were kind of reluctant?

18 A Well, I don't know how much -- yes.

19 Q Okay. Do you have a copy of that memo?

20 A Yeah.

21 Q Okay. Could I --

22 A The reason -- the reason I wrote that memo is it
23 went to Jeff Cohen. Jeff Cohen did not want to do the case.

24 Q And do you know why he didn't want -- do you know
25 why he didn't want to --

1 A Because it was going to be hard to prove and nobody
2 wanted to do it and, you know, my suggestion -- we had so
3 many different theories. Instead of going after the big
4 thing which we may not be able to get to in Antigua, why
5 can't you do something about the broker-dealer? We have a
6 US-registered broker-dealer selling something that we don't
7 know what it is. And, you know, why can't we be a little
8 bit -- you know, pursue all our legal theories related to
9 that and at least stop them from selling it? Because the
10 whole reason this thing is working -- I'm going on. I'm
11 sorry. I get very impassioned about it. I feel like I spent
12 10 years trying to get enforcement to --

13 Q No, I understand. I understand, and I respect you
14 for having this much passion about your job.

15 A Anyway, there's a memo and he --

16 Q Was the memo written --

17 A Anyway, he wanted to close it because, you know,
18 where they send out questionnaires to investors and
19 investors, you know, they don't know that there's a problem.

20 Q Right.

21 A You know, they're perfectly happy. He didn't want
22 to do any of the other theories because, you know, you're
23 putting yourself out on a limb, you know. What if
24 you're -- you're going to maybe embarrass yourself in front
25 of the Commission or whatever. I mean, I'm guessing, but he

EXHIBIT 32

Memorandum of Interview of Julie Preuitt

At 11:30 a.m. on November 2, 2009, (b)(6), (b)(7)c interviewed Julie Preuitt via telephone.

Preuitt stated that the other people who worked on the 1997 B-D Exam of the Stanford Group, besides Preuitt, were Mary Lou Felsman and (b)(6), (b)(7)c, who was the only person who actually travelled on-site.

Preuitt stated that, for the 1998 Stanford ENF MUI, (b)(6), (b)(7)c was assigned at the staff level. Victoria Prescott, the branch chief at the time, was on (b)(6), (b)(7)c leave, and Preuitt does not know if anyone acted on Prescott's behalf as branch chief for the Stanford MUI. Spence Barasch was the Asst. Director for the Stanford MUI, and it was his decision to close the investigation.

Preuitt stated that Hugh Wright was an Associate Director in FWRO Enforcement until approximately January 1998, when he went over to FWRO OC. His current phone # is (b)(6), (b)(7)c

Preuitt stated that Mary Lou Felsman retired in December 1997 or January 2008. Felsman called Preuitt immediately after the Stanford story broke in the news. Felsman had been enthusiastic about the case back in 1997. Felsman's phone # was (b)(6), (b)(7)c but it may have changed. (b)(6), (b)(7)c is her husband's name.

Preuitt stated that the 2009 New Orleans trip with Barasch, (b)(6), (b)(7)c and (b)(6), (b)(7)c was purely a social trip. Preuitt is not sure if anyone else was present when Barasch acknowledged Wayne Secore's influence in his decision to close the 1998 Stanford MUI. These statements by Barasch may have taken place at a dinner or after dinner.

EXHIBIT 33

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

COPY

In the Matter of:)
) File No. OIG-526
OIG-526)

WITNESS: Number 2

PAGES: 1 through 61

PLACE: U.S. Securities and Exchange Commission
6432 General Green Way
Alexandria, VA 22312

DATE: Thursday, October 29, 2009

The above-entitled matter came on for hearing, pursuant to notice, via telephone, at 11:17 a.m.

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4

(b)(6), (b)(7)c

5

6 Office of the Inspector General

7 Securities and Exchange Commission

8 100 F Street, N.E.

9 Washington, DC

10

11 On behalf of the Witness:

12 VICTORIA PRESCOTT, PRO SE (Via telephone)

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1 with a firm that claimed its assets were overseas and in a
2 jurisdiction that historically has not been particularly
3 helpful.

4 Q The referral that was made in March of '05, that
5 written referral, were you personally in either preparation
6 for it or sort of the process of sending it to Enforcement
7 and trying to get them to do something with it?

8 A I drafted it. Do you have a copy of it?

9 Q Yeah, I do. I'm sorry, that's -- I haven't looked
10 at it in quite a while, so --

11 A No, no worries, I just thought --

12 Q Now that you say that, I do remember your name was
13 on it.

14 A That's okay. I just thought if you didn't have a
15 copy of it, you probably would want one.

16 Q Yeah.

17 A Yeah, I was intimately involved in that.

18 Q And what was Enforcement's reaction to that
19 referral? Did you get any pushback? I mean, they did open
20 up a matter, and turned it into an investigation.

21 A Yes, there was a lot of pushback, and initially it
22 came from Spence Barrish (phonetic) and Hal Dagenhart
23 (phonetic.)

24 Q Okay, what was --

25 A I'm sorry?

1 Q What was the basis for that pushback? Did they
2 share that with you, why they thought that it wasn't worth
3 opening an Enforcement case?

4 A Not really. Let me tell you the context, and maybe
5 that will make a little more sense.

6 Q Sure.

7 A At that time we were doing periodic summit meetings
8 with other regulators, and I think that may have been one of
9 the first ones I ever attended, I don't recall. But I was
10 still kind of learning the job. And Julie wanted me to give
11 a presentation on this matter, and it was -- typically she
12 would have people make some kind of a presentation at these
13 conferences on what they've been recently working on that was
14 of significance, so this was obviously what I've been working
15 on of significance, so I made a presentation.

16 My recollection is that happened in the early
17 spring of '05 in Austin, Texas, and I remember specifically
18 that (b)(6), (b)(7)c of the NASD was there. I think that her
19 number two, (b)(6), (b)(7)c (phonetic), was also there, and Hal
20 and Spence were there.

21 Q Okay.

22 A And I didn't -- I made the presentation, and it was
23 similar to what would have been in the memo, I'm sure. I'm
24 sure I would have based it on what was in the memo. And I
25 got indications from either Hal or Spence or both that this

1 was not something that they wanted to pursue, that they had
2 looked at this before. And I was kind of surprised, because
3 I was unaware of that.

4 Q Okay.

5 A And I was surprised that they were so -- I just was
6 really taken by surprise that they would have already formed
7 an opinion and that their minds appeared to be closed to it.

8 Q Did they make this -- did they make their feelings
9 known in that regard sort of openly --

10 A No.

11 Q -- right after your presentation, or did they kind
12 of pull you aside afterwards and --

13 A It was probably -- you know, you're really at this
14 point taxing my memory in terms of details, but I think that
15 we were probably still standing in the room where the
16 presentation had been made, and it was sort of a -- people
17 tend to break up into little groups after those things
18 happen, and it happened in that context, with just us. I
19 don't even know if Julie was there, but I just remember
20 feeling a little blindsided to, hear I've been asked to give
21 this presentation and then I was summarily told by the
22 leadership of our office and Enforcement that it was not
23 something they were interested in.

24 Q Was it Hugh Wright that had asked you to make the
25 presentation?

1 A No, Julie.

2 Q Julie, okay. In making the presentation, I take it
3 there were some NASD folks there, maybe some state
4 regulators, is that right?

5 A Yeah, there would have been -- if it was in Austin,
6 it would have been at the State Securities Board.

7 Q Was the purpose to see if any of those entities
8 were interested in pursuing it, or was the purpose in trying
9 to --

10 A No, the purpose was that when we had these summit
11 meetings, Julie always wanted people from Reg to talk about
12 significant work that they had undertaken since the previous
13 meeting. And of course I was brand new in Reg. This
14 probably was not the first one I've been to, you know, it
15 might have been the second. I don't remember. I'm sure
16 there's ways of figuring that out. This was obviously the
17 most -- one of the most significant things that I'd worked
18 on, so that's what she asked me to discuss.

19 Q Did you get a sense from -- at that time or from --
20 at any later time if, you know, were Hal and Spence
21 pooh-poohing its -- so to speak -- because they really felt
22 they had thoroughly looked at the issues in the past, or what
23 was -- I mean, because that would be -- that would be
24 surprising to me, because I think it's -- not to poison your
25 understanding of whatever, but I don't think anyone would say

1 that a thorough review of the Reg people's concerns had ever
2 been done by the Enforcement side at that point.

3 A I'm sorry --

4 Q I mean, did you -- you made a -- did you get the
5 sense that it was like, these aren't even securities, that's
6 why we don't want to do it, or was it like, you looked at all
7 of this, it's been thoroughly reviewed and there's nothing
8 there?

9 A It was a very perfunctory conversation, and it was
10 very -- it was not a matter for -- it was not up for
11 discussion. I was being told.

12 Q Right, gotcha, okay.

13 A And, you know, I just -- I felt a little bit -- I
14 don't know, I felt like I'd been put in an awkward position.

15 Q Sure.

16 A I had no idea what all had gone on, apparently, and
17 here I thought I'd turned in a good piece of work and was
18 talking about it to significant players in the regulatory
19 community, and I no sooner sit down, shut up and the meeting
20 ended, but then I got pulled aside and was told this has
21 already been looked at and we're not going to do it.

22 Q I didn't quite ketch that, where you said, sit down
23 and -- did someone tell you to sit down and shut up?

24 A No, no, no, I didn't say that at all. I said I had
25 no sooner sat down --

1 of historic information. I really didn't dwell too much on
2 what previous examinations -- whether a referral had been
3 made or not.

4 The referral process was, at that point, was
5 basically something that was written in the exam report, and
6 then someone from the referral staff would -- if they felt
7 strongly about the case they would go talk to someone in
8 Enforcement. It was a much less formal process.

9 As far as I know, this was the first written
10 referral. It may not have been, but I mean, I know when I was
11 in Enforcement what we got when there was an examination
12 referral was a copy of the exam report, which was always full
13 of so much extraneous information you had to sometimes look
14 carefully to parse out the part they were referring to
15 Enforcement. So it was just a very different kind of system
16 then it is now. I think the current system is much more
17 effective.

18 Q Do you have any awareness in -- back in '05 there
19 being any kind of referral from the SEC to FINRA about
20 Stanford?

21 A No.

22 Q Any kind of memo being written? You didn't
23 participate in any kind of memo being sent over to them
24 from --

25 A No, the only memo that I participated in with FINRA

1 would have been in -- sometime -- I don't remember whether it
2 was in '05 or '06, but it was -- we made the referral, and
3 then as Enforcement began working on it, and various people
4 weighed in, at what point I was directed -- and I believe it
5 was by Hal -- I think this was -- but I don't remember if
6 Spence was still here or not -- but I was directed to make a
7 referral to FINRA, and so I did. And that was a written
8 referral as well.

9 I sent a letter to -- I think it was to (b)(6), (b)(7)c
10 (b)(6), (b)(7)c and we had a conference about it, a conference call,
11 and they sent an examiner over here to review our papers.
12 That person is (b)(6), (b)(7)c (phonetic) came over here and
13 looked at our examination paperwork.

14 Q And to your understanding, why was Hal directing
15 you to send a referral to FINRA at this point in time?

16 A I wasn't given much in the way of explanation. I
17 was told that this is what we were going to do.

18 Q And do you know, in connection with -- you
19 described that conference where FINRA was there and Hal and
20 Spence were negative on the concept of investigating. Was
21 this after that conference?

22 A Yes.

23 Q Okay.

24 A Yes. And not knowing the previous -- I know more
25 now about previous referrals that had gone up to Enforcement,

1 and that I didn't know anything about until well after we'd
2 filed our complaint in February. So some of it makes a
3 little more sense to me that they would have been setting
4 aside for a moment the merits of it.

5 Q Yes.

6 A It's more understandable now that they were so
7 decisive about it and didn't really want to rehash it.

8 Q How is that?

9 A Just that they'd already -- apparently had already
10 visited the case and made a decision from these previous
11 instances. But, see, I didn't know anything about any of
12 that at the time.

13 Q And so then -- that's what I'm trying to reconcile.
14 Hal and Spence were negative on having it sort of be
15 reinvestigated. I guess, why did it end up continuing to be
16 investigated? Why didn't Hal shut it down?

17 A Well, I think the intent was probably to do just
18 that. But in the meantime we kept arguing and lobbying for
19 it here, Julie taking the lead, and I was assisting her with
20 that. Julie is pretty relentless when she decides something
21 needs to happen. And so she was continuing to lobby and talk
22 to people.

23 And at some point, as we began to have all these
24 changes of personnel, and Clarkson was our acting director,
25 there was a -- I believe it started with an email from

1 (b)(6), (b)(7)c that they were going to close it, and that
2 triggered a conference with Kit Adelman and Jim Clarkson, and
3 it triggered a memo from Julie Preuitt representing the Reg
4 position on it, and Jeff Cohen writing a memo that
5 represented his thinking on the case to date.

6 And then we had a meeting with Clarkson and Kit
7 Adelman and I was there, he was there, Julie was there, Jeff
8 Cohen was there. And at that point the decision was made to
9 keep the case open and to seek a formal order.

10 Q Okay. And so at this meeting with Mr. Clarkson and
11 Ms. Adelman, and you said Jeff Cohen, Julie Preuitt and
12 yourself -- Hugh Wright as well?

13 A Mm-hmm, yes.

14 Q Who else besides Mr. Cohen, if anyone, was
15 presenting an argument not to keep it open?

16 A I don't recall anyone else besides Jeff being
17 there. From Enforcement it would have been Jeff and Kit
18 Adelman. Of course Clarkson was the acting head of the
19 office, and then from the Reg side it would have been me,
20 Julie and Hugh.

21 Q And what were the -- can you recall what the
22 reasons were, given by Mr. Clarkson or Ms. Adelman, as to why
23 to keep it open?

24 A I don't think that there was -- I don't think there
25 was a lot of elaboration. I think they read the memos and

EXHIBIT 34

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

WITNESS: Witness No. 4

COPY

PAGES: 1 through 4

DATE: Tuesday, November 3, 2009

AUDIO TRANSCRIPTION

Diversified Reporting Services, Inc.

(202) 467-9200

P R O C E E D I N G S

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MALE VOICE: Okay, this is November 3rd, 2009. It is 11:10 D.C. time, and this is an interview with (b)(6), (b)(7)c of the Fort Worth office, and here with me is (b)(6), (b)(7)c.

Okay, (b)(6), (b)(7)c, I told you briefly what we were calling about, which is just whether or not you had -- you recalled being part of a conversation or hearing a conversation involving Spence Barasch (phonetic) at any time -- well, specifically on a New Orleans trip. I think it was a social event in maybe late July or August of 2009. Any discussion about the history of the Stanford investigation in the Fort Worth office, do you recall any such conversation?

(b)(6), (b)(7)c: The only thing I recall was some mention about (inaudible) that had occurred in Stanford.

MALE VOICE: In the 2009 timeframe?

(b)(6), (b)(7)c: Yes.

MALE VOICE: What do you recall about that conversation?

(b)(6), (b)(7)c: Just that -- I think it was something to do with the clawbacks and that there was -- Spence had mentioned something that one of his either partners or friends had been there, and then they were just talking about (b)(6), (b)(7)c comments to the court.

MALE VOICE: Oh, okay.

(b)(6), (b)(7)c: Do you recall any -- the name Wayne

1 Seacore (phonetic) coming up at all on any conversations on
2 that trip?

3 (b)(6), (b)(7)c : No.

4 MALE VOICE: I'm sure you -- do you know who Mr.
5 Seacore is?

6 (b)(6), (b)(7)c : Oh yeah, I know Wayne, yeah.

7 MALE VOICE: Okay, well, I think -- I mean not to
8 pry, but just to give us a little bit of context to what we
9 have heard, can you explain -- because we are just a little
10 confused about the context of this trip. Was it purely
11 social or was it --

12 (b)(6), (b)(7)c : Yes, purely social.

13 MALE VOICE: Have I got the attendees, if you will,
14 correct? Was it those four people?

15 (b)(6), (b)(7)c : Correct.

16 MALE VOICE: Okay. All right, well I guess that is
17 it. (b)(6), (b)(7)c, do you have any questions?

18 (b)(6), (b)(7)c : No, I don't. Thanks very much.

19 (b)(6), (b)(7)c : All right.

20 MALE VOICE: Well, and just to put a -- did you
21 ever have a -- after that trip or sometime during that trip,
22 did you have a conversation with anyone about whether Wayne
23 Seacore had represented Stanford at some point?

24 (b)(6), (b)(7)c : Not that I recall, no, and I didn't
25 know he did.

EXHIBIT 35

Memorandum of Telephone Call with (b)(6), (b)(7)c

At 2:45 pm on Wednesday March 3, 2010, (b)(6), (b)(7)c spoke via telephone with (b)(6), (b)(7)c, former economist at the SEC's Office of Economic Analysis. (Telephone #: (b)(6), (b)(7)c)

(b)(6), (b)(7)c explained that the OIG is conducting an investigation concerning Stanford Group and requested that (b)(6), (b)(7)c participate in a telephone interview pursuant to this investigation. (b)(6), (b)(7)c responded that he had no recollection of ever having any communications with anybody or doing any work at the SEC concerning Stanford or the Stanford Group. (b)(6), (b)(7)c also had no recollection of communicating with Victoria Prescott, (b)(6), (b)(7)c or Jeff Cohen. (b)(6), (b)(7)c stated that he would check with his lawyer before agreeing to a recorded interview, and that he would get back to OIG soon with a response.

At 9:00 am on Friday March 5, 2010, (b)(6), (b)(7)c called (b)(6), (b)(7)c and stated that he had no memory of anything related to Stanford or the Stanford Group. (b)(6), (b)(7)c then stated that he had decided not to participate in an interview.

EXHIBIT 36

Memorandum of Interview of Hal Degenhardt

At 9:45 am on Wednesday February 17, 2010, Inspector General H. David Kotz, (b)(6), (b)(7)c and (b)(6), (b)(7)c interviewed Hal Degenhardt at the Fort Worth Office of the Securities and Exchange Commission (SEC).¹

Preliminaries

Kotz, (b)(6), (b)(7)c and (b)(6), (b)(7)c first identified themselves and informed Degenhardt of the existence of the Office of Inspector General (OIG) investigation. Degenhardt was given a copy of a form entitled "Confidentiality and NonDisclosure Agreement" which described in detail the responsibilities of a former SEC employee who is shown non-public information. Degenhardt acknowledged that he was aware of his obligations to protect non-public information and stated affirmatively that he had not copied any portion of the documents that were provided to him and that he was returning all such documents to the OIG. Degenhardt committed to not divulging any non-public information he learned in the course of the interview and indicated that he would not comment on any matter related to the OIG investigation unless it was already in the public domain. Kotz also requested that Degenhardt not talk to other potential witnesses about this investigation to preserve the integrity of the investigation and Degenhardt agreed not talk to others while the investigation was ongoing.

Background

The interview began with Kotz inquiring about Degenhardt's background. Degenhardt stated that he received his undergraduate degree from Villanova in 1968 and his J.D. from Fordham Law School in 1973. He said he worked at the law firm of Mudge Rose Alexander from 1973 through the mid-1970's. He then worked at Dresser Industries in Dallas for a year, practicing products liability law. He then worked at the law firm of Coke & Coke as a partner until 1983. He stated he was a partner at Gibson Dunn & Crutcher, practicing general litigation, mostly antitrust, from 1984-1996.

Degenhardt stated that in the summer of 1996, he joined the SEC as Director of the Fort Worth District Office (FWDO). He said he left this position in 2005 to become a partner at Fulbright & Jaworski. On January 1, 2008, he left his partnership position at Fulbright & Jaworski, but he still works for them on a contractual basis as a legal consultant. He is semi-retired.

While Director of the FWDO, Degenhardt stated that he reported to the head of the Denver Regional Office, (b)(6), (b)(7)c. Degenhardt noted that (b)(6), (b)(7)c did not require strict reporting from him and Degenhardt mostly dealt with the Directors of the

¹ Degenhardt agreed to meet with the OIG with the understanding that notes would be taken, but refused to allow the interview to be recorded or taped.

Enforcement Division, (b)(6), (b)(7)c Dick Walker, and (b)(6), (b)(7)c Degenhardt noted that he did not deal with Walker much; he dealt more with (b)(6), (b)(7)c

Degenhardt stated that Walker was critical that the FWDO was bringing too many Temporary Restraining Order (TRO), Ponzi, and prime bank cases, which Walker referred to as “kick in the door and grab” cases or “mainstream” cases. He confirmed that a “Ponzi scheme” case was one of the types of “mainstream” cases that Walker complained about. Walker said that the FWDO needed to bring more Wall Street types of cases, like accounting fraud. Degenhardt did not recall exactly when Walker conveyed this criticism, although he thought it may have been a couple of years after he began his tenure at the FWDO. Degenhardt noted that this criticism was conveyed to him at times through (b)(6), (b)(7)c and at times through Jim Clarkson. Degenhardt recalled a conversation with Walker where Degenhardt said that when the New York Office starts bringing oil and gas cases, FWDO will start bringing Wall Street cases.

Degenhardt stated that he “absolutely felt that it was important to convey to the Commission the number of cases that his office brought.” He said the regional offices were “heavily judged” by the number of cases they brought when Degenhardt first came to the SEC. Degenhardt acknowledged that complex accounting fraud cases could take more time than “kick in the door and grab” cases and that would lower their numbers, although he stated that the FWDO did not stop doing “kick in the door and grab” cases even when they worked on more complex cases like Dynegy and Halliburton.

Degenhardt stated that after 1997, the FWDO, the third-smallest regional office, brought more cases than any other regional office on a per-capita (person) basis. He said that New York and Chicago were the only regions who brought more cases than FWDO during Degenhardt’s tenure and they had substantially larger offices. He said the FWDO was always in the “top 3” for overall number of cases brought from 1997 through 2005, and in 2001, FWDO brought the highest number of cases of any regional or district office. He emphasized that this was a “source of great pride” for himself, Spence Barasch as the head of Enforcement in the FWDO, and the FWDO as a whole.

Stanford

Kotz asked Degenhardt specific questions about the FWDO examinations and investigations of Robert Allen Stanford, the Stanford Group Company, and Stanford International Bank. Degenhardt said he had only the vaguest recollection of Stanford prior to reading about them in a newspaper article last year.

Kotz showed Degenhardt a copy of the 1997 FWDO Broker-Dealer group examination report of Stanford Group Company and Degenhardt stated that he did not recall having seen this report.

Kotz then showed Degenhardt a copy of the 1998 Stanford Matter Under Inquiry (MUI) opening form with his signature. Degenhardt stated that he had no recollection of opening this MUI. He said he was surprised to see his signature on this document, since

he noted that Assistant Directors could open MUIs at that time. Degenhardt speculated that perhaps the Assistant Director was not around at that time, so he signed it instead.

When asked about the lawyers assigned to the Stanford MUI, he stated that (b)(6), (b)(7)c was not one of his office's strongest lawyers, but merely competent.

Kotz then showed Degenhardt a portion of the FWDO's 1998 Investment Advisor examination report re Stanford Group Company and Degenhardt stated he did not recall seeing this report.

Kotz showed Degenhardt a copy of an access request that he signed regarding the Stanford MUI and Degenhardt stated that he did not recall this document, noting that he access requests on a routine basis. He stated that no other SEC regional office interfaced with the U.S. Attorney's Office more than the FWDO. Degenhardt did not remember any concern by any criminal authorities regarding Stanford being possibly engaged in money laundering. He also did not remember any referral from U.S. Customers regarding Stanford possibly being engaged in money laundering.

Degenhardt stated he had no recollection of the 1998 Stanford MUI or its closure.

Kotz then showed Degenhardt a portion of the FWDO's 2002 Investment Advisor examination report re Stanford Group Company. Degenhardt stated he did not recall seeing this report. Degenhardt said he recalled concerns regarding Stanford being raised to him by his staff at the SEC, but he did not remember any details.

Kotz then showed Degenhardt a May 21, 2003 e-mail string from (b)(6), (b)(7)c which indicated that (b)(6), (b)(7)c had a conversation with Degenhardt about the Stanford matter. Degenhardt stated he did not have a specific recollection of the conversation with (b)(6), (b)(7)c but said that it was not uncommon for him to pop his head in and check on what staffers were working on. Degenhardt did not specifically remember making sure that someone at the appropriate level at the Fed was aware of concerns regarding Stanford, but that would be what he would have done.

Kotz showed Degenhardt a series of e-mails beginning with an October 25, 2004 e-mail from Julie Preuit regarding Stanford but Degenhardt did not have a recollection of these e-mails.

Degenhardt had no specific recollection of a Stanford investigation and noted that if Stanford had been a major concern for the office, he would have remembered it.

Degenhardt noted that it happened that there were disagreements between the examiners and enforcement attorneys about a referral from an examination to Enforcement and noted that examiners were encouraged by (b)(6), (b)(7)c to refer matters to Enforcement and also became invested in cases being brought based upon the examinations they conducted.

Degenhardt stated that he left the decisions to Spence Barasch as to what to do with an examination referral, noting that if Barasch felt that a case deserved Degenhardt's attention, Barasch would bring it to him. Degenhardt said there were supposed to be monthly meetings where cases were discussed, but they often did not occur, and Barasch would prefer that Degenhardt not get too involved, because as a consequence, people in meetings would look to Degenhardt instead of Barasch.

Degenhardt recalled that the FWDO had a case with offshore victims and no complaints, but he did not know if it was Stanford. Degenhardt acknowledged that the lack of U.S. investors in a potential case would be "a factor" in determining whether to bring the case, and noted that Barasch shared his opinion on this matter.

Degenhardt noted that Barasch was even more concerned about "stats" than Degenhardt, stating that "it was very important to Barasch that the FWDO bring a high number of cases," possibly because Barasch came from Oklahoma and started in government. Degenhardt stated that the FWDO's high number of cases "was a feather in Barasch's cap."

Degenhardt also noted that he was "very outspoken" and (b)(6), (b)(7)c had to defend him on a number of occasions to the Commission. Degenhardt said he was "bullet proof" because of the high number of cases that the FWDO brought and as a result, the Commission "could not get rid of him." Degenhardt said he would often "fight with the bureaucrats in DC" and would tell the staff: "You are my shield, because of the high numbers of cases you are bringing, so if you like me working here, keep bringing a lot of cases."

Degenhardt said that SEC headquarters was "very concerned with the number of cases brought by regional offices." He said there was a point when it became kind of a joke when (b)(6), (b)(7)c Director of the Miami Office, put in a ton of deregistration cases in his last thirty days working in the office, thereby tremendously inflating the number of cases the Miami office brought that year. He said at that point, the focus on numbers became ridiculous even to those in DC. Degenhardt could not recall exactly when that happened, but said it may have been during (b)(6), (b)(7)c or Walker's tenure.

Degenhardt said that DC was very focused on numbers, but at the same time, did not want the FWDO to bring too many "mainstream" cases like TRO or Ponzi schemes. He recalled a meeting with Dick Walker where Walker said to him, "give the Ponzi scheme-type cases to the states." Degenhardt said he replied that "the states are not capable of doing these cases" to which Walker reiterated, "give them to the states." Degenhardt recalled a big Investor Advisor case in San Antonio involving offshore accounts with primarily Mexican investors that was given to DOJ.

Degenhardt recalled quarterly summit meetings where the FWDO would talk about their matters with state regulators and the NASD. He did not specifically recall a summit meeting in which Victoria Prescott discussed Stanford, but said it would not surprise him if that happened. He said he had a vague recollection of Prescott speaking at

a summit meeting. Degenhardt also did not specifically recall an occasion in which Prescott gave a presentation at a summit meeting about Stanford and people in the Enforcement group at FWDO were unhappy, but stated that it was entirely possible, noting that he and Barasch were not shy people.

When asked about Julie Preuitt, Degenhardt praised her abilities as an examiner although said she did not always express herself well. He considered Mary Lou Felsman to be a "goddess." When shown a copy of Preuitt's October 25, 2004 e-mail, he indicated that it did not surprise him that Preuitt would write an e-mail like that.

Kotz showed Degenhardt portions of the 2004 FWDO Broke-Dealer Examination report for Stanford Group Company but Degenhardt said he did not recall seeing the report.

Degenhardt said he had a vague recollection, around the time that he was leaving the SEC, in May or June of 2005, of participating in an internal FWDO discussion about referring Stanford to the NASD. He did not recall who else participated in this discussion, although he noted that Barasch was gone at the point and thought it may have been Jeff Cohen because of Cohen's position at the time. He said that it was certainly possible that the Stanford matter was referred to FINRA because the FWDO was not going to look into Stanford itself.

When asked about the feeling at certain times that the Commission may not want to accept a particular type of case, Degenhardt noted the long process of getting an investigation approved, and acknowledged that it was a factor in deciding which investigations to bring whether the Commission would ultimately approve the matter.

Degenhardt described a (b)(5), (b)(7)a case the FWDO was investigating (that he did not believe was Stanford), where someone in the FWDO, maybe (b)(6), (b)(7)c or (b)(6), (b)(7)c, informed him that the office of Market Regulation in DC said (b)(5), (b)(7)a

(b)(5), (b)(7)a

Degenhardt recalled a meeting in DC, attended by him, Barasch, Nazareth, Richard Colby (Deputy Director of Market Regulation at the time), (b)(6), (b)(7)c Dick Walker, and (b)(6), (b)(7)c in which the issue of whether the CDs were securities was discussed. (b)(5), (b)(7)a

(b)(5), (b)(7)a

Degenhardt noted that BROA also agreed with him but in the end, he was told explicitly by Walker that with a transition at the Commission, this was not the time to bring the case. He was told "don't force the issue" and consequently, the case was never brought.

Kotz then showed Degenhardt a June 24, 2005 e-mail from Jeff Cohen about Barasch's request to represent Stanford after he left the SEC. Degenhardt did not recall the email, and noted that Barasch would have been prevented from working on any matter that his group had worked on. Degenhardt also specifically stated that Jeff Cohen was close to Barasch as Barasch was responsible for bringing Cohen to the SEC.

Degenhardt noted that Barasch was a micromanager, and the staff often complained about it.

Degenhardt stated at the conclusion of the interview that he did not recall any decisions made by his office concerning Stanford, but it was not FWDO's approach to just let go of cases. He felt the FWDO worked very hard in his tenure on all types of cases (including big cases), and if they were not bringing the Stanford case, it was not because they were sitting on their hands as they were very busy bringing lots of cases.

The interview concluded at approximately 11:30 am.

EXHIBIT 37

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

SUBJECT: Interview of Witness Number 8

PAGES: 1 through 13

DATE: Wednesday, February 17, 2010

TAPE TRANSCRIPTION

COPY

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P R O C E E D I N G S

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MR. KOTZ: So just to start off, this is an investigation by the Office of the Inspector General, case number OIG-526 -- my name is David Kotz. I'm the Inspector General of the SEC. I have with me (b)(6), (b)(7)c and (b)(6), (b)(7)c (b)(6), (b)(7)c from the Office of the Inspector General.

Wayne Secore is here with us.

We are not doing this under oath, so I'm just going to go right into the questions.

MR. SECORE: All right.

MR. KOTZ: Can you just tell me generally kind of your background, work experience, you know, at the SEC and thereafter?

MR. SECORE: I was with the Commission -- and again, this is a long time ago. So I was with the Commission, started with the Commission in the Chicago office in 1971 --

MR. KOTZ: Okay.

MR. SECORE: -- staff attorney. Stayed there four years, was promoted to a branch chief in Regulation and I was at the San Francisco office for three years.

MR. KOTZ: Okay.

MR. SECORE: And then went to Fort Worth.

MR. KOTZ: Do you remember about the time when that was?

1 MR. SECORE: It was about '75 to '78 --

2 MR. KOTZ: Okay.

3 MR. SECORE: -- latter stages of '78.

4 MR. KOTZ: And what was your position at the SEC
5 Fort Worth office?

6 MR. SECORE: Regionally -- Assistant Regional
7 Administrator of Regulation.

8 MR. KOTZ: And when did you leave the SEC?

9 MR. SECORE: No, well -- well then in -- let's see.
10 When did I get there? So it would have been late '78, early
11 '79, left in '86 but I became Regional Administrator of the
12 Fort Worth office in '81, about that.

13 MR. KOTZ: So from 1981 to approximately 1986, you
14 were Regional Administrator of the Fort Worth office; you
15 were the head of the Fort Worth office?

16 MR. SECORE: Yes.

17 MR. KOTZ: Okay. And so what did you after 1986?

18 MR. SECORE: I went into private practice with
19 various firms over a period of time, starting in April of
20 '86.

21 MR. KOTZ: Mm-hmm. And at some point, you joined
22 the firm Secore and Waller, or started the firm?

23 MR. SECORE: I started the firm.

24 MR. KOTZ: When was that, do you remember?

25 MR. SECORE: It would have been in about '94 --

1 MR. KOTZ: Okay, so then --

2 MR. SECORE: -- late '94.

3 MR. KOTZ: Late '94, and that's the firm you're in
4 today?

5 MR. SECORE: That is correct.

6 MR. KOTZ: Okay and so -- okay. All right, let me
7 show you a couple of documents. This is a letter dated --
8 let me just figure out which one to give you first. This is
9 a letter dated June 10, 1998 from Jack Ballard, with a copy
10 to you to (b)(6), (b)(7)c, Enforcement attorney, SEC. Let me
11 just give you this one because I (inaudible) up. And it is
12 in the context of an informal inquiry that the SEC had
13 regarding Stanford Group Company.

14 MR. SECORE: Yeah, I see it's an MUI (phonetic) --

15 MR. KOTZ: Right.

16 MR. SECORE: -- MFW --

17 MR. KOTZ: Right.

18 MR. SECORE: -- late '94.

19 MR. KOTZ: Right. So this is a letter from
20 Ballard, and it talks a little bit about SGC's position with
21 respect to document requests, okay -- and you're copied on
22 it.

23 And then let me show you a second letter just so
24 you have everything in front of you. That's a letter dated
25 June 19, 1998 from Jack Ballard with a copy to Hal Degenhardt

1 to (b)(6), (b)(7)c, and take a look at this letter, too.

2 And in the first line of this letter, it says, "As
3 you know, Wayne Secore and I represent Stanford Group
4 Company, a registered broker-dealer and investment advisor in
5 connection with the informal inquiry being conducted by the
6 Fort Worth District Office."

7 MR. SECORE: Mm-hmm.

8 MR. KOTZ: And then if you could see further on,
9 like on page three, it says, "On several occasions Wayne and
10 I have stated that SGC will cooperate fully with your
11 inquiry, and we reiterate that position."

12 And then at the bottom of page three it says,
13 "Second, Wayne and I believe the seriousness of SGC's concern
14 warrants a personal meeting with you and Harold Degenhardt to
15 discuss those concerns raised in the letter. Wayne and I are
16 available at any time on Tuesday, June 23rd or Wednesday,
17 June 24th. Please let me know at your earliest convenience
18 when a personal meeting with you and Mr. Degenhardt can be
19 scheduled. Thank you for your attention to these matters."

20 And we had some indication that there actually was
21 some kind of meeting. Now, I don't know that it was
22 necessarily with Degenhardt.

23 MR. SECORE: I do not recall there being a meeting.
24 I mean, it's so long ago.

25 MR. KOTZ: Okay.

1 MR. SECORE: And I can't remember what happened in
2 the meeting, to be honest with you.

3 MR. KOTZ: Okay. Do you have some recollection
4 that you represented Stanford at this time?

5 MR. SECORE: Probably.

6 MR. KOTZ: Okay. I mean, we have --

7 MR. SECORE: I --

8 MR. KOTZ: Go ahead.

9 MR. SECORE: You know, with Jack -- yeah, probably.

10 MR. KOTZ: We have records to show that there was,
11 you know, somewhat of a significant representation of
12 Stanford by you at that time, and it seems as though it was
13 related to this MUI.

14 MR. SECORE: Let me read both of these.

15 MR. KOTZ: Great, thank you.

16 MR. SECORE: I don't have a recollection of this
17 June 10th letter.

18 MR. KOTZ: Okay, we'll --

19 MR. SECORE: I don't deny the authenticity of it --

20 MR. KOTZ: Right.

21 MR. SECORE: -- but --

22 MR. KOTZ: Now, would it be common in a case, if
23 you were dealing with a staff attorney from the SEC, to
24 request a meeting with higher-ups in the office?

25 MR. SECORE: Sometimes, yeah.

1 MR. KOTZ: Why would you do that?

2 MR. SECORE: Well, if the client wanted it.

3 MR. KOTZ: Right. And there are other times when
4 you might have a --

5 MR. SECORE: And if my -- in my judgment I wanted
6 it.

7 MR. KOTZ: Mm-hmm -- and there are times where you
8 might feel like you have a better forum to express your view
9 to somebody higher up and then talking to the (inaudible)?

10 MR. SECORE: Yes, yes. Yeah.

11 MR. KOTZ: Okay, so is it possible that in this
12 case -- you know, (b)(6), (b)(7)c was I think a relatively
13 junior person, and you and Jack Ballard asked to have a
14 meeting with the higher-ups? Would that be consistent with
15 how practices were often done?

16 MR. SECORE: Again, it's a guess but I presume, you
17 know, because I think at this point, (b)(6), (b)(7)c may have been a
18 junior attorney over at the SEC.

19 MR. KOTZ: Right. And at that point in time --

20 MR. SECORE: And again, I -- you know.

21 MR. KOTZ: Spence Barasch at that time was the head
22 of the Enforcement Group.

23 MR. SECORE: Yeah, I'm not sure.

24 MR. KOTZ: Okay, but assuming that Spence Barasch
25 was the head of the Enforcement Group at that time, would it

1 be common to have a meeting with him involving a matter like
2 this?

3 MR. SECORE: It wouldn't be -- yeah, but I mean, I
4 didn't -- you know, we set it to Degenhardt I guess for -- or
5 at least the other.

6 MR. KOTZ: Okay. Do you remember any meetings with
7 Degenhardt or Barasch at that time?

8 MR. SECORE: No.

9 MR. KOTZ: Okay. But it's a long time ago. It
10 doesn't mean that you didn't -- you know it didn't mean that
11 didn't --

12 MR. SECORE: No, it doesn't mean we didn't have it.

13 MR. KOTZ: Right.

14 MR. SECORE: I just don't recall it.

15 MR. KOTZ: Okay.

16 MR. SECORE: This would have been June of '98 --

17 MR. KOTZ: Yeah, okay.

18 MR. SECORE: -- almost 12 years ago.

19 MR. KOTZ: All right. Do you want to take a quick
20 look at the other letter --

21 MR. SECORE: Yes.

22 MR. KOTZ: -- just to see if there is anything
23 there that refreshes your recollection?

24 MR. SECORE: Don't recall that letter either.

25 MR. KOTZ: Okay. Do you remember anything

1 generally about representing Stanford, there was a MUI, and
2 then the MUI was closed?

3 MR. SECORE: There was no enforcement action that I
4 recall.

5 MR. KOTZ: Okay, so you do remember that they
6 didn't end up bringing an enforcement action?

7 MR. SECORE: That's correct.

8 MR. KOTZ: Okay, and do you remember why, anything
9 about why that was?

10 MR. SECORE: No.

11 MR. KOTZ: Okay.

12 MR. SECORE: It's not unusual in the case of a MUI
13 not to bring any enforcement action.

14 MR. KOTZ: Right, right.

15 MR. SECORE: It's much more --

16 MR. KOTZ: But you remember in some ways that you
17 were successful, or you and whoever else were successful in
18 representation of Stanford in this case?

19 MR. SECORE: Well, they certainly didn't bring a
20 case, so -- an enforcement action so --

21 MR. KOTZ: Okay, and while it's possible you had a
22 meeting, you don't have a specific recollection of one?

23 MR. SECORE: Yeah, it's possible that we had a
24 meeting. You know, if I asked for it, or Jack here asked for
25 it and I would have been involved in it, more likely than not

1 we probably did have a meeting. You know again, that's a
2 guess.

3 MR. KOTZ: Right.

4 MR. SECORE: I just have no recollection of that.

5 MR. KOTZ: So it's likely if you had asked for a
6 meeting, that you would have followed up to make sure you had
7 a meeting?

8 MR. SECORE: That's what I do. That's what I
9 usually would --

10 MR. KOTZ: And it would be unlikely for the SEC to
11 say, "No, we refuse to meet with you," so if you asked for a
12 meeting, they probably did meet with you?

13 MR. SECORE: Well, they've told me no on other
14 occasions before, you know, when I've asked for meetings.
15 It's not rare. I mean, it's not -- it's rare that that
16 happens when they don't meet with you.

17 MR. KOTZ: Okay. Okay.

18 MR. SECORE: Very rare.

19 MR. KOTZ: Okay.

20 VOICE: Anything else?

21 MR. KOTZ: No. Is there anything else you can
22 recall from that 1998 letter?

23 MR. SECORE: Not that detail. I can't remember
24 what happened two weeks ago.

25 VOICE: I just want to ask you generally, I get the

EXHIBIT 38

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. OIG-526
OIG-526)

COPY

SUBJECT: Interview of Witness Number 9

PAGES: 1 through 13

DATE: Friday, February 19, 2010

TAPE TRANSCRIPTION

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P R O C E E D I N G S

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MR. KOTZ: Okay so this is an investigation by the Office of the Inspector General, Securities and Exchange Commission. It is 3:48 p.m. eastern time on February 19, 2010 and my name is David Kotz. I'm the Inspector General of the SEC and I have with me (b)(6), (b)(7)c and (b)(6), (b)(7)c. On the phone is Jack Ballard.

And I'm going to ask you, Mr. Ballard, some questions and the tape recorder will record what you said. Please provide verbal answers to the questions as obviously you are on the phone, so we won't be able to pick up a nonverbal response.

Also so the record will be clear, please let me finish my question before you provide your response. And in addition that you understand -- it is important that you understand the questions, and so if there is anything you don't understand or anything you do not know or are not sure about, please let me know. Otherwise I will assume that you heard and understand -- understood the question.

Do you understand those instructions?

MR. BALLARD: Yes, I do.

MR. KOTZ: Okay great. Let the record reflect that you signed a confidentiality and nondisclosure agreement prior to this interview. Is that right?

MR. BALLARD: Yes, I did.

1 paragraph on the page, the third to the last sentence, it
2 says, "Second, Wayne and I believe the seriousness of SGC's
3 concern warrant a personal meeting with you and Harold
4 Degenhardt to discuss those concerns raised in the letter.
5 Wayne and I are available at any time on Tuesday, June 23rd
6 or Wednesday, June 24th. Please let me know at your earliest
7 convenience when a personal meeting with you and Mr.
8 Degenhardt can be scheduled."

9 MR. BALLARD: Yeah, I see those words here.

10 MR. KOTZ: Do you remember anything about
11 requesting a meeting?

12 MR. BALLARD: No, I do not.

13 MR. KOTZ: Do you remember anything about having a
14 meeting with folks at the SEC?

15 MR. BALLARD: No, I do not.

16 MR. KOTZ: Okay.

17 MR. BALLARD: Yeah, I just don't recall. It's been
18 too long ago.

19 MR. KOTZ: Okay. Do you remember anything about
20 that representation that you had of the SEC -- of Stanford
21 Group Company regarding the SEC's inquiry?

22 MR. BALLARD: Not really, no. I mean no, I mean I
23 see these letters. I obviously was involved in that, but
24 other than these letters I don't have any recollection of it.

25 MR. KOTZ: Okay. But do you remember that kind of

EXHIBIT 39

Memorandum of Telephone Call with (b)(6), (b)(7)c

At 10:30 am on Wednesday February 24, 2010, (b)(6), (b)(7)c

(b)(6), (b)(7)c and (b)(6), (b)(7)c spoke via telephone with (b)(6), (b)(7)c
(b)(6), (b)(7)c, Texas State Securities Board ("TSSB").

(b)(6), (b)(7)c stated that the TSSB searched their records for a 2002 referral concerning the Stanford Group Company ("SGC") from the Securities and Exchange Commission ("SEC") and did not find anything.

(b)(6), (b)(7)c also stated that there was nothing that added up to a formal referral from TSSB to the SEC in 1999. There were discussions at summit meetings among regulators in Texas, including TSSB and the SEC's Fort Worth District Office, in which SGC was discussed. The TSSB, however, can not find any such meeting records in which SGC or Stanford was mentioned prior to 2006. The Securities Commissioner's phraseology was wrong to call what happened regarding Stanford in 1999 a "referral" from TSSB to SEC. Nothing was sent by the TSSB to the SEC in 1999. Moreover, the only document that the TSSB could find between TSSB and SEC concerning Stanford prior to the 2003 (b)(6), (b)(7)c letter was a 1997 SEC deficiency letter sent to SGC that was cc'd to the TSSB.

In a subsequent telephone call between (b)(6), (b)(7)c and (b)(6), (b)(7)c later that day, (b)(6), (b)(7)c confirmed that the TSSB conducted an exam in May 1997 of Stanford Group Company. (b)(6), (b)(7)c group did the May 1997 exam and told Enforcement to hold off on doing an investigation, although the investigator can't recall why.

EXHIBIT 40

**Memorandum of Interview with
Denise Crawford, (b)(6), (b)(7)c and (b)(6), (b)(7)c**

At 2:00 pm on Monday, March 1, 2010, Inspector General H. David Kotz,

(b)(6), (b)(7)c

and (b)(6), (b)(7)c

interviewed Denise Voigt Crawford (Texas State Securities Commissioner), (b)(6), (b)(7)c

(b)(6), (b)(7)c (Texas State Securities Board ["TSSB"], (b)(6), (b)(7)c

and (b)(6), (b)(7)c

(b)(6), (b)(7)c at the TSSB's headquarters
in Austin, Texas.¹

Background

Crawford stated that she received her undergraduate degree from the University of Texas at Austin, and she received a J.D. from the St. Mary's University School of law in 1980. She obtained her Texas Bar license in 1981. After graduating law school, Crawford had her own private legal practice for a few months. She then joined the TSSB as an attorney in the registrations division. Crawford stated she became the general counsel for the TSSB in 1983. As the general counsel, Crawford said she gave legal advice, worked on rulemaking, and issued legal opinions. Crawford became the Texas State Securities Commissioner in 1993. As Commissioner, Crawford oversees the TSSB staff.

Crawford stated that the TSSB's Enforcement Division brings civil, criminal, and administrative actions. Crawford stated that the TSSB will often bring a criminal case in conjunction with the SEC's civil action. She indicated that the TSSB's Inspections & Compliance Division looks at firms and individuals licensed as broker-dealers or investment advisors. The TSSB has a staff of approximately 99 people statewide. There are five branch offices and a main office in Austin.

TSSB Inspection of SGC

Crawford stated that she first heard about Stanford Group Company ("SGC") generally between 1995 and 1997. Crawford stated that the TSSB conducted an inspection of Stanford Group in or around 1997. Crawford stated that (b)(6), (b)(7)c, who was the (b)(6), (b)(7)c of the TSSB's (b)(6), (b)(7)c, was concerned about SGC. Crawford stated that (b)(6), (b)(7)c said that there were problems with Stanford. Crawford stated that there had been a securities fraud case against a Texas entity called (b)(6), (b)(7)c around that time, and (b)(6), (b)(7)c thought that there were some similarities between SGC and (b)(6), (b)(7)c replaced (b)(6), (b)(7)c as (b)(6), (b)(7)c of the TSSB's (b)(6), (b)(7)c and was not at the TSSB at the time of the TSSB's Stanford Group inspection.

Crawford stated that it was reported to her that the TSSB discussed these problems concerning Stanford with the SEC's Fort Worth District Office ("FWDO") and

¹ Crawford agreed that she and her staff would meet with the OIG with the understanding that notes would be taken. Crawford refused to allow the interviewed to be recorded or taped, however.

the NASD. Crawford stated that because she, as Commissioner, is the ultimate decisionmaker in administrative proceedings, the TSSB has to be careful in what they tell her so as not to prejudice any later decisions by her in an administrative proceeding.

TSSB Inspection Report re SGC

Crawford stated that the normal TSSB process is to create a report at the end of each inspection. (b)(6), (b)(7)c stated that there is a report of the TSSB's 1997 Stanford inspection. (b)(6), (b)(7)c also stated that the report had no reference to fraud in it. Crawford and (b)(6), (b)(7)c did not know if the TSSB's Stanford inspection report was shared with the SEC, but under the normal procedure, the information in the report would have been shared with the SEC. Kotz asked if there was any issue of money laundering in the inspection report. (b)(6), (b)(7)c responded that he did not recall if there were any such references in the report.

Crawford and (b)(6), (b)(7)c stated that they could not share the inspection report or its contents with the SEC's OIG because, by statute, the report could only be shared for certain law enforcement purposes. Crawford stated that the TSSB could not share the inspection report even if requested by Congress.

(b)(6), (b)(7)c stated that (b)(6), (b)(7)c gave (b)(6), (b)(7)c a transmittal memorandum (from TSSB's Inspections & Compliance Division to TSSB's Enforcement Division) with regard to the TSSB's Stanford inspection report. (b)(6), (b)(7)c also stated that he has a handwritten note (with (b)(6), (b)(7)c handwriting) on top of this transmittal memorandum stating that (b)(6), (b)(7)c told (b)(6), (b)(7)c to "hold off" regarding the Stanford Group. (b)(6), (b)(7)c stated that there is nothing else in the note, and it is undated. (b)(6), (b)(7)c stated that there is no record of any TSSB Enforcement inquiry. (b)(6), (b)(7)c also stated that he has not seen any record of any other TSSB activity concerning the Stanford Group, until the 2003 complaint referral to Spence Barasch.

Crawford stated that she did not know what the findings of the TSSB Stanford inspection report were. Crawford remembered hearing later about off-shore security sales. Crawford stated that the TSSB does not have the authority to get off-shore evidence. Crawford also stated that Stanford would not have been an appropriate case for the TSSB to bring.

Crawford stated that there was question around the late 1990's as to whether CDs were securities under Federal securities law. Crawford stated that a footnote in the *Marine Bank* decision caused an "uproar" on this topic. Crawford stated that she was sure that the SEC must have discussed this issue.

Quarterly regulatory summit meetings

Crawford stated that quarterly summit meetings take place that are attended by the SEC's FWD0, FINRA, and state regulators in the region, including Texas, Oklahoma, and Arkansas. Crawford stated that the meetings would often be in Austin, but

sometimes would take place in other cities. (b)(6), (b)(7)c stated the meetings typically lasted four to five hours, and that they started around the time of NSMIA (the National Securities Markets Improvement Act, which became law in 1996).

Crawford stated that at these summit meetings, there is extensive discussion by the regulators about what they were doing. Crawford stated that there was always a notetaker at these summit meetings, and that the SEC's Julie Preuitt was the notetaker for a long time. Crawford stated that Preuitt would send a draft of her notes to the other attending regulators. Crawford stated that there seemed to be an absence of records in the early years concerning the minutes of these meetings, but that the Oklahoma securities regulator may have such records, and that (b)(6), (b)(7)c was a good contact at the Oklahoma securities regulator for this information.

(b)(6), (b)(7)c stated that Spence Barasch and Hal Degenhardt typically attended these meetings when they were in charge of the FWDO. Crawford stated that she attended a couple of these meetings, but she then stopped because of the information she might learn that could prejudice her in any later role in administrative proceedings. Crawford stated that (b)(6), (b)(7)c and (b)(6), (b)(7)c attended from the TSSB.

Crawford stated that a footnote in FINRA's internal report refers to a discussion about Stanford in these summit meetings. (b)(6), (b)(7)c noted that the FINRA report footnote referred to summit meeting discussions about Stanford in 2006. Crawford stated that she is sure that Stanford was discussed earlier because of (b)(6), (b)(7)c Crawford stated that she did not know why Stanford would have been brought up to her but not to other regulators.

(b)(6), (b)(7)c stated that the discussions at these quarterly summit meetings entailed the sharing of intelligence, not formal referrals.

(b)(6), (b)(7)c asked whether there was any sharing of intelligence by the TSSB concerning Stanford apart from these quarterly summit meetings. Crawford responded that it was impossible to say one way or the other. (b)(6), (b)(7)c then asked Crawford if anyone told her that there had been intelligence sharing by the TSSB concerning Stanford apart from the quarterly meetings. Crawford said that nobody had.

Crawford stated that when she had recently spoken in a public forum about the TSSB referring the Stanford matter to the SEC in the late 1990's, she was referring to discussions of Stanford at summit meetings, not a formal referral. Crawford stated that in a budget presentation she gave, she was asked what the TSSB did regarding Stanford, and she answered the best she could after she remembered that there was something regarding money laundering in connection with Stanford.

Crawford stated that in this public forum, she was flat-out wrong when she said the TSSB had referred Stanford to the FBI, and that she had just misremembered. She said she may have been referring to communications with another federal entity, the U.S. Customs Department. But, again, Crawford stated that her reference to a "referral" at the

budget presentation related to informal meetings and communications at the regulatory summit, not any formal referral made at any point to the SEC.

(b)(6), (b)(7)c stated that he remembered Victoria Prescott talking about the Stanford Group in the March 2005 summit meeting. (b)(6), (b)(7)c remembered that Prescott expressed concerns about the Stanford Group, but did not recall whether she specifically referenced a Ponzi scheme. Based on what he learned from Prescott's presentation, (b)(6), (b)(7)c thought that the SEC had put a lot of effort into the Stanford matter and would continue to put a lot of effort into it. (b)(6), (b)(7)c could not tell from Prescott's presentation whether there had been a referral from the SEC's examinations group to SEC's Enforcement division at the time of the presentation. (b)(6), (b)(7)c stated that, from the perspective of the non-SEC attendees at the summit meeting in which Prescott gave a presentation regarding Stanford, the SEC was looking into and handling the Stanford matter. (b)(6), (b)(7)c said that there was a little discussion about whether the Stanford CDs were securities at this March 2005 meeting.

(b)(6), (b)(7)c stated that Stanford was mentioned at other summit meetings after the March 2005 meeting. (b)(6), (b)(7)c stated that the SEC indicated in these subsequent summit meetings that they were still looking into Stanford. (b)(6), (b)(7)c stated that Julie Preuitt mentioned the Stanford CDs at least one of the summit meetings, and that Preuitt may have discussed the Stanford CDs at the March 2005 meeting. (b)(6), (b)(7)c stated that FINRA talked about their own Stanford inquiry in a subsequent meeting as well.

2002

Kotz stated that TSSB (b)(6), (b)(7)c (b)(6), (b)(7)c had told OIG that the TSSB had searched its records, and that there is no record of a transmittal from the SEC to the TSSB in or around 2002 concerning Stanford. Crawford agreed with this statement. Crawford also stated that, as a matter of procedure, if the SEC sends a letter to TSSB stating that the SEC is sending a complaint to the TSSB, the TSSB regularly keeps records of such letters. Crawford also stated that the fact that the TSSB does not have a record of such a letter in their files would indicate that the TSSB never received such a letter from the SEC.

Kotz showed Crawford, (b)(6), (b)(7)c and (b)(6), (b)(7)c a copy of (b)(6), (b)(7)c (b)(6), (b)(7)c October 28, 2002 letter to the SEC expressing concerns about the Stanford Group's CDs. Crawford, (b)(6), (b)(7)c, and (b)(6), (b)(7)c all stated that they had never seen the letter before.

Kotz asked Crawford if a matter regarding CDs and a bank in Antigua is something that she would normally associate with the SEC. Crawford responded yes, and (b)(6), (b)(7)c added that he would make that association particularly if there was an overseas issuer. Crawford stated that it would be unlikely for the TSSB to work on an offshore issuer investigation.

Kotz asked how often the TSSB received referrals from the SEC. Crawford responded: "It depends what you call a referral." (b)(6), (b)(7)c stated that, for the TSSB's Inspections & Compliance Group side, it's very rare to receive a formal referral from the SEC, although they may get a telephone call from the SEC's Kim Garber about a matter. (b)(6), (b)(7)c stated that (b)(6), (b)(7)c at the SEC occasionally forwarded matters to the TSSB, but that formal referrals from the SEC to TSSB were uncommon. (b)(6), (b)(7)c stated that the TSSB never received examination reports from the SEC, but they would receive copies of deficiency letters sent by the SEC at times. (b)(6), (b)(7)c stated that if the TSSB had received an examination report from the SEC, they would presumably still have it. Crawford stated that it was a big issue with the SEC's General Counsel as to whether the SEC could share those reports with others. Crawford stated that it was very rare for the SEC to send something to the TSSB identifying itself as a referral. (b)(6), (b)(7)c asked if the TSSB received referrals, by which he meant that the SEC had determined that there was a problem and told the TSSB that it should follow up on the matter. Crawford responded that the TSSB did not receive formal letters from the SEC of this nature. Crawford stated that the SEC sends a lot of oil and gas matters to the TSSB, because the TSSB has expertise in that topic, but the SEC sends these matters in a very informal manner.

2003

Kotz showed the August 4, 2003 TSSB letter from (b)(6), (b)(7)c to Spence Barasch at the SEC, forwarding (b)(6), (b)(7)c July 31, 2003 letter expressing concern about Stanford. (b)(6), (b)(7)c stated that (b)(6), (b)(7)c the (b)(6), (b)(7)c in the (b)(6), (b)(7)c matter, made stark comparisons between (b)(6), (b)(7)c and the Stanford Group. (b)(6), (b)(7)c stated that he wrote this letter to the SEC because the Stanford matter potentially involved foreign investors and an offshore issuer. (b)(6), (b)(7)c stated that this was a perfect example of something appropriate for SEC action, because of the SEC's contact with foreign authorities, an offshore issuer, and because of the amount of resources necessary to investigate fully, and that as a result an investigation of Stanford Group would fit the SEC better than the TSSB. (b)(6), (b)(7)c noted that the (b)(6), (b)(7)c matter led to a federal indictment.

(b)(6), (b)(7)c stated that on around August 1, 2003, (b)(6), (b)(7)c called Spence Barasch on the telephone concerning the (b)(6), (b)(7)c letter about Stanford Group. (b)(6), (b)(7)c stated that, because (b)(6), (b)(7)c had engaged in serious fraud, he thought the TSSB needed to bring (b)(6), (b)(7)c concerns regarding the Stanford Group to the SEC's attention. (b)(6), (b)(7)c stated that he would not have sent Barasch the letter on August 4 if Barasch had not expressed interest in their August 1 telephone conversation. (b)(6), (b)(7)c stated that he had a binder of information regarding SGC, but he has no record of sending it to Barasch. (b)(6), (b)(7)c is not sure whether he told Barasch about the SGC binder or not. (b)(6), (b)(7)c stated that at no point in his August 1, telephone conversation with Barasch, nor on any other occasion, did Barasch tell (b)(6), (b)(7)c that there had been a referral from the SEC to the TSSB concerning the Stanford Group.

Crawford stated that from her perspective she would consider the August 4, 2003 TSSB letter a referral to the SEC. Kotz asked (b)(6), (b)(7)c if, by sending this, he was letting

the SEC know that the TSSB was not going to look into this. (b)(6), (b)(7)c responded that normally, when he made a call like that, it was for that reason. Kotz then asked if one reason (b)(6), (b)(7)c sent this letter because of the similarities between the Stanford Group and (b)(6), (b)(7)c and because of the international issuer. (b)(6), (b)(7)c responded that yes, he sent the letter for those reasons, and in addition it was a really huge case with international implications. He also noted that the TSSB did not have the resources for this type of investigation. (b)(6), (b)(7)c did not recall any further contact with Barasch regarding Stanford after (b)(6), (b)(7)c sent Barasch the August 4, 2003 letter. (b)(6), (b)(7)c stated that he looked through the TSSB's files and that he did not see any other written complaints concerning Stanford prior to 2009. (b)(6), (b)(7)c stated that (b)(6), (b)(7)c told him that he spoke with Kit Addleman about Stanford in 2005.

Crawford stated that in 2009 the SEC notified the TSSB of their complaint against Stanford Group on the day that the SEC filed the complaint.

The interview concluded at approximately 3:30 pm.

EXHIBIT 41

1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION

2

3 In the Matter of)

4) File No. OIG-526

5 OIG-526) Amended 3/16/2010

6

7 SUBJECT: Interview of Witness 31

8 PAGES: 1 through 67

9 DATE: Tuesday, March 2, 2010

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12 AUDIO TRANSCRIPTION

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24 Diversified Reporting Services, Inc.

25 (202) 467-9200

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1 PROCEEDINGS

2 whereupon,

3 SPENCER BARASCH

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

6 MR. KOTZ: So it's 12:25 p.m. on March 2, 2010, at
7 the law offices of Andrews Kurth in Dallas, Texas. My name
8 is David Kotz. I'm the Inspector General of the United
9 States Securities and Exchange Commission. I have with me my
10 colleagues from the Office of Inspector General, (b)(6), (b)(7)c
11 and (b)(6), (b)(7)c. And Spence Barasch is here as a witness,
12 and his counsel is here, Ross Rommel, from the firm of
13 Andrews Kurth.

14 This is an investigation by the Office of Inspector
15 General, Case Number OIG-526. I'm going to be asking you
16 certain questions. Please provide verbal responses as a nod
17 of the head or another inaudible response won't be picked up
18 by the take recorder. So the record will be clear, please
19 let me finish my question before you provide your response.

20 It is important you understand the questions and
21 give accurate answers. If there's anything you don't
22 understand or anything you do not know or are not sure about,
23 please let me know. Otherwise, I will assume that you heard
24 and understood the question. Do you understand those
25 instructions?

1 THE WITNESS: Yes.

2 MR. KOTZ: Okay. Great. Let's start with a little

21 A Yes. I started as a partner and still a partner,
22 at least the last I heard.

23 Q Okay. All right. Let me ask you. When did you
24 first learn of the existence of Allen Stanford, the Stanford
25 Group Company, or Stanford International Bank?

10

1 A Now, if you're asking me for my specific
2 recollection or just being refreshed by documents, but I can
3 tell you I have a very specific recollection that when I came
4 to the Fort Worth office in -- back to the Fort Worth office
5 in mid-1998, one of the first things I did is I essentially
6 did a review of the whole case of inventory in the office and
7 I seem to remember that there was a matter, what we call MUI.

8 I'm sure you know what that is, but it's kind of a
9 preliminary informal investigation. But I seem to remember
10 there was a matter open on Stanford.

11 A Right. And one of many matters that were open in
12 the office, so I did a review of all the cases, and that's
13 when Stanford, that first I can recall the name Stanford
14 coming to me.

15 Q Okay. So you think when you saw that there was an
16 MUI on Stanford, you didn't recognize Stanford really before?

17 A Correct.

18 Q Okay. All right. So in connection with that let
19 me ask you about the first document, which is the Stanford
20 Group Company examination report that was provided to you.
21 It's a four-page document. It says on the front, Stanford
22 Group Company, 5056 Westheimer, Suite 605. And this is an
23 examination report of an exam that the SEC Fort Worth

24 Broker-Dealer Group conducted of Stanford in 1997. Do you
25 recognize this document?

11

1 A No.

2 Q Okay. Do you think you ever saw this document?

3 A Probably not.

4 Q Okay. What do you remember about -- you know, you
5 said you came into the office -- kind of did an inventory
6 about what do we have here. One of the matters was a MUI on
7 Stanford. What do you remember about that case at that time?

8 A My recollection from reviewing the documents you
9 provided and the best of my memory, I believe, or I'm making
10 an assumption that the MUI that was open probably related to
11 this document you're showing me.

12 Q Right.

13 A But I don't know that firsthand. I didn't see this
14 document, but I sat down with each of the lawyers. Hal
15 Degenhardt would have participated. You know, and I think we
16 brought each branch or each lawyer in a room. We just went
17 through their whole case inventory and my recollection is --
18 but I'm not a hundred percent certain -- that this matter was
19 in the hands of (b)(6), (b)(7)c, somebody you mentioned
20 earlier.

21 Q Right.

22 A But at this point it was a staff attorney.

23 Q Right.

24 A Yeah, I think she was a staff attorney in their
25 office and this was one of the matters on her plate was a MUI

1 and, you know, we talked about, you know, what we should do
2 to each of the cases, which we should pursue, which we should
3 close, things like that; and I can tell you that I recall
4 that a decision was made with the Stanford MUI that she had
5 to refer it to, and my recollection was the NASD.

6 I saw something in the papers that references
7 referral to Texas State Securities Board. I will tell you my
8 practice probably would have been to tell them to refer to
9 both, thinking they both should be aware of it and that each
10 of those agencies might have wanted to look into it. So the
11 decision was to refer it and to close it.

12 Q Okay. And do you know why that decision was made?

13 A I can tell you why it was likely made.

14 Q Okay.

15 A And I have to give you some background here.

16 Q Sure.

17 A When I was hired to come to the Fort Worth office
18 in 1998 to run the enforcement program there, I was told and
19 encouraged in a positive way by senior management in the
20 Enforcement Division in Washington as well as people in the
21 Denver office. You may not know this, but at that time the
22 Fort Worth office was actually under the Denver office.

23 Q Right. Right.

24 A And so they supervised us. They oversaw us. So I
25 was told that the view was that the Fort Worth Enforcement

1 program was sleepy, was lacking energy, was not working on

2 good cases and they wanted me to energize the program -- and
3 to clean up the inventory and to get them focused on working
4 what would be deemed to be good core cases for the
5 Commission. And on top of that I was told that my emphasis
6 should be on financial fraud. And by financial fraud, I mean
7 cases involving public companies, Enron type cases, although
8 obviously nobody knew about Enron back in 1998, or at least
9 knew about the Enron fraud.

10 But that was my mantra and I will give you a number
11 of examples of that as we go through this, but from the day I
12 started to the day I left I was repeatedly reminded and
13 encouraged; and, a couple of times scolded that that's where
14 the emphasis of the office needs to be. So with that as a
15 background, I had this matter and I can't tell you what (b)(6), (b)(7)c
16 told me about the case. But from reading some of the other
17 documents, my belief is that I was probably told that it was
18 a registered broker-dealer selling some unregistered
19 investments.

20 Whether I was specifically told these were bank
21 CDs, I probably was. Bank CDs, you know, from a foreign
22 bank, you know, I probably knew that. And taking into
23 account all the other matters we had in our inventory, the
24 message that I had been delivered and the fact that there was
25 other agencies that would have jurisdiction over this outfit

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1 that could pick the case up, that's why that decision was
2 made.

3 Q So this case would not fall into the category of
4 financial fraud cases or financial crimes?

5 A Correct, for you know the lingo or by "financial
6 fraud," that's a word or term that was commonly used
7 throughout the division and that meant cases involving
8 publicly traded companies that traded on, you know, in the
9 U.S. markets.

10 (b)(6), (b)(7)c : Excuse me. It's basically
11 interchangeable with accounting fraud. Is that what? I mean
12 accounting fraud cases?

13 THE WITNESS: Yes. You know, financial fraud's
14 just a broader brush of that. This would certainly -- this
15 would be described as a regulatory case. And by no means am
16 I saying that I was ever told not to work regulatory cases,
17 but I will give you some examples in a moment about that.
18 But very, very heavy strong emphasis on accounting frauds.

19 BY MR. KOTZ:

20 Q Okay. Now from some of the information that we've
21 been able to learn about this matter under inquiry from
22 talking to a variety of people, first of all, it was only
23 open for three months. It doesn't look like there was a lot
24 of work done at that time. Is that your recollection as
25 well?

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1 A No recollection of any specifics.

2 Q Okay.

3 A All I remember was one of the cases on the
4 inventory that we talked about.

5 Q And the other thing that we've been able to learn
6 was it looked like at that point there was a little bit of a
7 focus on money laundering in the matter under inquiry, rather

8 than maybe on the results of the examination, which related
9 more to a possible fraud or Ponzi scheme?

10 A David, at that time, I just didn't have that level
11 of sophistication or understanding on this case.

12 Q Okay.

13 A Perhaps as we go forward I could tell you when the
14 case reappeared maybe I had a better understanding of it.

15 Q Right. Okay. But what you remember, it was on the
16 inventory and it didn't fit into the cases that at that time
17 you were kind of encouraged to bring; and, so the decision
18 was made not to bring it.

19 A Yes. And, you know, there were other factors I
20 considered on which cases to continue to work and which not
21 to work. You know, do we have complaining investors, you
22 know, other victims? Do we have evidence of fraud? Like I
23 said earlier, is there somewhere else that we could send it
24 where they would be capable of looking at it? So a whole
25 host of factors, but an overarching one throughout my whole

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1 eight years in Fort Worth, and I will give you some examples
2 of this that I think are very relevant, I was constantly told
3 you don't bring enough financial fraud cases. You need to
4 bring more. That's where you need to focus. That's where
5 you need to put your resources.

6 Q Okay. So who made the decision, that decision at
7 that time not to -- to close the MUI involving Stanford in
8 1998?

9 A It would have been myself and Hal Degenhardt,
10 probably, jointly. We worked as a team. Anyone who knows

11 the Fort Worth office, maybe David too from his personal
12 knowledge down there, but knows that Hal and I had a very
13 close partnership in terms of the running of the office, the
14 management of the office. But I just want to give some more
15 background.

16 Q Sure.

17 A It's important, because I know part of your job is
18 to know who did what. The way the process in Fort Worth, the
19 way it was run is, and this actually frustrated me, I would
20 have preferred it to be different, but I had absolutely no
21 supervision, authority or oversight of the regulation side of
22 the office; you know, the regional offices and branch
23 offices, pretty much half enforcement and half regulation.

24 Q Right.

25 A Regulation being examiners.

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1 Q Right.

2 A And enforcement being, you know, enforcement
3 attorneys and accountants. And for the whole time I was
4 there, I never had any authority supervision, whatsoever,
5 over the regulatory side of the office. That's not deciding
6 to work with them and like them and care about them and talk
7 to them, but that was Hal's bailiwick. And it was good. He
8 did it with the best of intentions, because he knew how
9 overwhelmed I was in enforcement, especially after Enron
10 picked up and all the scandals. So in a way, in part, it
11 helped me, because it took some responsibility off my plate
12 with him that I didn't have to worry about so much.

13 So by way of example, and we're going to talk about

14 a couple of other exams in a second, but often I was not
15 involved in the planning of exams. I didn't know who we were
16 examining. I didn't know why we were examining them. I had
17 no involvement with OC, which I guess was coming into
18 creation around then. You know, I was completely removed
19 from the examination process.

20 During the course of an exam issues would come up.
21 That was Hal. Hal dealt with all those issues. He said,
22 basically, "Spence, go get them in enforcement." You know?
23 And so he dealt with all the regulatory issues. So when an
24 examination referral arose I would know of it or get it,
25 essentially, at the very end of the day when it was all done,

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1 packaged and whatever. And that's when I would typically get
2 involved. So just some more background for you.

3 Q Okay. Do you remember -- speaking of the
4 examination folks -- do you remember at that time Julie
5 Preuitt being involved in the exam and taught having
6 conversation about with you about the MUI? She reported that
7 you invited her to her office at one point and told her you
8 were closing the MUI, the Stanford MUI in 1998. Do you
9 remember that?

10 A No recollection; I may have very well done that.

11 Q Okay. And do you remember at any point in time in
12 connection with the 1998 MUI having a conversation with Wayne
13 Secor who represented Stanford at that time?

14 A Somehow it stuck in my mind that when Secor
15 represented him -- you know, when I would go through a case
16 with a staff attorney, I would almost always ask who is the

17 defense lawyers and I would want to know because each of them
18 have their own ways of defending a case or representing
19 somebody; and, you know, I could advise or help better
20 appreciate understanding the progress of the case and how
21 it's going and everything else, knowing who's on the other
22 side.

23 Q Right.

24 A So I would often ask who the attorney was on the
25 other side. I vaguely remember knowing that Wayne Secor had

19

1 something to do with Stanford, but I don't know when I
2 learned that.

3 Q Okay. Let me ask you this. In a trip to New
4 Orleans not too long ago, when was that trip, exactly?

5 A It was in July.

6 (b)(6), (b)(7)c : Late July, early August.

7 BY MR. KOTZ:

8 Q Late July, early August of 2009, so, you know,
9 relatively recently.

10 A Yeah.

11 Q We reported that you had a conversation with Julie
12 Preuitt at a dinner at the Besch Steakhouse in the Harris
13 Casino in New Orleans and then at that time you talked to her
14 about why you decided to close the Stanford MUI in 1998 and
15 referenced something about a conversation you had with Wayne
16 Secor at the time about certain representations he made about
17 Stanford. Do you recall that?

18 A I remember going to New Orleans. I remember Julie
19 was there along with a couple of other SEC people who were

20 friends of mine, and they're in a completely friends
21 capacity.

22 Q Right.

23 A Obviously, Stanford is the talk of the town these
24 days.

25 Q Right.

20

1 A which I guess is what draws you to Texas; you know.
2 I would never have said that because I don't remember that.

3 Q Okay. Do you remember having a conversation with
4 her at all about the Stanford MUI?

5 A I do -- I'm sorry.

6 Q Go ahead.

7 A I interrupted you. Yeah, I do remember. I don't
8 actually remember saying this, that one, I was surprised that
9 I hadn't heard from anybody at the Commission about it. You
10 know, I knew there had been the report. You know, you had
11 done an initial report --

12 Q Right, a previous report.

13 A -- on I guess on the newer matter.

14 Q Right.

15 A I don't know. It was a question, as I guess we'll
16 talk about in a second, as to when the new matter started and
17 the old matter ended and all that stuff.

18 Q Right.

19 A But, you know, I just commented that I'm really
20 surprised that I haven't heard from anybody. You know, I
21 would think that anybody who wanted to get down to the bottom
22 of it would need to talk to me, would want to talk to me.

23 Q Right.

24 A So I'm really surprised and, you know, maybe she
25 brought up something about 1998, or whatever.

21

1 Q But do you remember anything about talking to her
2 about why the decision was made to close the MUI in 1998?

3 A No. What did she say?

4 Q Well that you told her that it was based on a
5 representation that Wayne Secor made to you at the time about
6 Stanford. I guess he was representing Stanford, that Wayne
7 Secor represented that there was nothing there, which, you
8 know.

9 A Yes.

10 Q It wouldn't be inappropriate for him to represent
11 since he's representing Stanford. Obviously, he's going to
12 defend Stanford, so he would naturally say, you know, there's
13 nothing wrong.

14 A Absolutely. I would have never said that.

15 Q Okay.

16 A It would have never happened.

17 Q Okay.

18 A David knows my reputation. It's a reputation for
19 being pretty much overly aggressive and a prick. I would
20 never accept an attorneys representation about anything.
21 And, you know what? I would never expect the staff now,
22 based on a call from me telling them something's okay, not to
23 do their job either. I wouldn't even try.

24 Q Okay. Just checking.

25 A So, that's absurd.

1 Q Do you remember having communication with folks?
2 You said it was referred to outside the SEC. Do you remember
3 anything about Customs Department or other entities that
4 there were conversations between the SEC office and related
5 to that 1998 MUI?

6 A No. I told you everything I recall about that.

7 Q Okay. Good. All right. Let me ask you about the
8 next document, and that is a July 16, 1998, memorandum from
9 Hugh Wright by (b)(6), (b)(7)c to (b)(6), (b)(7)c, the examination
10 liaison. And it's just the first couple of pages of an exam
11 report that was conducted in 1998 of Stanford relating to or
12 conducted by the Fort Worth office investment advisor group.
13 Do you recall ever seeing this report?

14 A No.

15 Q Okay. And as you stated earlier, you wouldn't
16 necessarily see exam reports unless there was a particular
17 matter involved?

18 A Correct. You know, I looked at this document ahead
19 of our meeting and there's really no date that I could find
20 as to showing when this exam took place.

21 Q Okay.

22 A And I was wondering if perhaps this is the report
23 relating back to the 1997 exam. In other words, this is the
24 same exam.

25 Q No.

1 A It's different?

2 Q Yeah. And so if you look on page 2, it says,

3 "Field work started 6/1/98. Field work ends 7/9/98."

4 A I see that. Okay.

5 Q So it seems as though there was an exam. The first

6 exam was done by the broker-dealer group of Fort Worth, and

7 this exam was done by the investment advisor group.

8 A Okay.

9 Q But you don't have any recollection of seeing this

10 document or being aware of a 1998 exam by the investment

11 advisor group?

12 A No. I had just literally walked into the office

13 and was overwhelmed, trying to get my arms around issues and

14 problems, and cases and inventory, and trying to do all the

15 things that I was asked to do to energize and clean up the

16 inventory. So I have no recollection of this at the time.

17 Q Okay. Great. Okay. Let me ask you about the next

18 one, which is a 2002 report, December 19, 2002, again from

19 Hugh Wright by (b)(6), (b)(7)c to (b)(6), (b)(7)c. This was a

20 subsequent exam report conducted by the investment advisor

21 side of the Fort Worth office.

22 A This one?

23 Q Yes, December 19, 2002. Do you remember this

24 document at all?

25 A I do not.

□

1 Q Okay. Do you think you ever saw that?

2 A There's probably a good chance I did.

3 Q Okay.

4 A Can I put this here?

5 Q Sure.

6 A Because, you know, I know ultimately what you're
7 trying to figure out is, you know, why weren't some of these
8 issues followed-up on back in these days. Is it fair that's
9 one of the things you're interested in?

10 Q Sure, yeah.

11 A So I might be able to lend you some context.

12 Q Great.

13 A You know, first, just from a strict reading of this
14 segment of this report, you know, again, there's no reference
15 to any fraud here. And there's a reference simply to an
16 unregistered offering of CDs. So, you know, in terms of --
17 also I'll point out this is after Enron and the tremendous
18 frenzy which I want to talk about in a second -- and the
19 message that I had gotten about bringing financial fraud
20 cases, you know, before Enron, you know, was the force of
21 that message was, you know, exponentially increased after
22 Enron. Okay?

23 Q Okay.

24 A So, I mean that underscored it. So this is
25 December 19, 2002. It's an exam referral. If I had seen

25

1 it, you know, would have talked about an unregistered public
2 offering -- nothing about fraud. And, if I had --

3 Q But you don't have the whole document though, so
4 you don't know.

5 A Right. Well, is there some more to it?

6 Q Yeah. Because you hadn't seen it, I don't think
7 there's reason to kind of go over all the details. I just
8 want to find out for you.
9 A Want to know if I saw it?
10 Q Right. Okay.
11 A I might have.
12 Q But you don't remember seeing it?
13 A I don't remember seeing it, but I might have.
14 Q Okay.
15 A And, you know, if any assumptions are going to be
16 made about why or if there should have been follow up to this
17 or whatever --
18 Q Sure.
19 A -- you know, I'd like to share with you what I
20 think would have been the case.
21 Q Sure. No, I just want to remind you, you only have
22 a few pages. So I just don't want you to say something that
23 then we look at the whole document which we haven't given
24 you --
25 A Okay.

26

1 Q -- and turn around and talk about that.
2 A Okay. well, that's what I'm saying. My qualified
3 my account if I said based on what I have in front of me --
4 Q Okay.
5 A -- a snippet.
6 Q Okay, sure.
7 A If there's more to it, let me know, but I do see
8 the summary here.

12 office didn't bring enough cases as well in addition to this
13 issue about accounting fraud, that their numbers were low and
14 that one of the ways that regional or district offices were
15 judged was the number of cases they brought and that that was
16 a matter that was of importance to Hal Degenhardt, perhaps
17 from information he learned from the Washington Headquarters
18 office that it was important during that time period for the
19 Fort Worth office to show that they had high numbers of
20 cases, stats, so to speak. Do you remember that?

21 A Yes.

22 Q Okay.

23 A And when I said that the office was low on energy
24 and didn't have energy, and those kind of code, they needed
25 to bring more cases and be more active. And so, but I will

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1 tell you that every regional and district office was very
2 motivated to bring as many cases as possible, because
3 that's -- you were judged by the number of cases you brought
4 and then the quality of the cases you brought. And it was
5 both. And the number of cases was extremely important. We
6 were under a lot of pressure to win lots of cases to get the
7 numbers up.

8 Q Right. And isn't it true that you were successful?
9 I mean Hal Degenhardt told us about how there was a time
10 period, you know, within that timeframe, I think, when you
11 were there, where Fort Worth was very high in terms of number
12 of cases. And, in fact, it was maybe the top three in the
13 Commission among regional offices, notwithstanding the fact
14 that, you know, New York was giant. And, you know, so it

15 really wasn't possible to compete with that. Do you remember
16 that?

17 A Of course. You know, bring me back to the many
18 conversations Hal and I had about this and that we also had
19 with people in Washington, because we turned the office
20 around. We felt like we had, and in spades. And we felt
21 like we were still kind of being judged from, you know, the
22 mentality of the earlier office before we had kind of taken
23 over. And there was one year -- and encourage you to get the
24 statistics -- there was one year where we brought, the Fort
25 Worth office brought more cases, not the third.

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1 Q Right, right. Right.

2 A More cases than any office in the whole Commission
3 other than the home office.

4 Q Right.

5 A Well, then what they would say to us repeatedly, it
6 was very frustrating, and this was, you know, for somebody
7 who really worked hard and took pride in their job, and Hal
8 and I both, it was so frustrating, because then they would
9 say, yeah, but your cases aren't good. That was kind of the
10 story line. Well, yeah, okay, so you brought 70 cases, but
11 look at them. They're not good. And then there was the how
12 many financial fraud cases. It would always come back to
13 that.

14 Q And so who would say this to you?

15 A Well, initially, the message: "Go get 'em, boy,"
16 message, which was, you know, I believe very well intended
17 and it was well received. And I would have done the same.

18 It was Dick Walker who was the head of enforcement.

19 Q Right.

20 A Great guy, a lot of respect for him; but, a lot of
21 the message was delivered through (b)(6), (b)(7)c who was the head
22 of the (b)(6), (b)(7)c who supervised us.

23 Q Right.

24 A And then also through (b)(6), (b)(7)c who was his deputy
25 at the time, but now I think runs the office there, and then

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1 through Hal. You know, they would say to Hal. We would
2 constantly hear this, constantly. And can I give you an
3 example of something that's very important?

4 Q Sure, sure, sure, please.

5 A That you wouldn't know.

6 (A brief recess was taken.)

7 MR. KOTZ: Continuation of the interview of Spencer
8 Barasch. Before we went off the record you told me about and
9 showed me copies of three documents. They are litigation
10 oriented: one dated November 30, 1998, one dated August 4,
11 1999, and one dated November 8, 2000. And these are examples
12 of cases that were brought during that time period by the SEC
13 Fort Worth office. And these cases involve charging
14 investment advisor security fraud.

15 In addition, the (b)(6), (b)(7)c case specifically
16 related to a fraud that was Ponzi-scheme related that was
17 similar in nature to the issues that we now know about the
18 Stanford case. And so you were telling me that these cases
19 were brought during that time period and what was the
20 reaction then from the powers that be outside of Fort Worth

21 to you bringing these cases.

22 THE WITNESS: Just to elaborate a little bit more
23 on your description of the cases.

24 MR. KOTZ: Sure, please.

25 THE WITNESS: You know, first of all, behind

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1 there's some clips. There might be a couple of additional
2 litigation releases related to each case, like follow-up
3 actions, some evictions and indictments.

4 MR. KOTZ: Okay.

5 THE WITNESS: These are all things that were done
6 by or at the effort of the Fort Worth office. The first one,
7 1998, the other things in '98 is Sharp Capital. And all
8 three of these cases were very similar to Stanford, what we
9 know now about Stanford. They involved registered advisors
10 or broker-dealers with the Commission.

11 They involved the sales of investments to customers
12 of foreign securities or foreign products. And the first one
13 was an \$80 million fraud. The second one was \$475 million
14 fraud, and the third one was a \$38 million fraud. Actually,
15 it was a \$70 million fraud. In each case the Fort Worth
16 office went into court, got a temporary restraining order, an
17 asset freeze, and got a receiver appointed, and was able as a
18 result of that kind of prompt action was able to recover a
19 lot of funds for investors.

20 I note that in none of these cases were the firms
21 selling bank CDs, which distinguishes it from Stanford,
22 because as we know, Stanford was selling CDs of an Antiguan
23 bank, which presents an issue we'll talk about. But

24 nonetheless, we thought this was good work. We were proud of
25 these cases. These are not financial fraud cases. These are

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1 what I would call regulatory cases.

2 (b)(6), (b)(7)c was huge. It was \$475 million. We did
3 it jointly with the U.S. Attorney and the FBI. Like I said,
4 lots and lots of money was recovered for investors. None of
5 these cases were applauded, at all. A measure of this came
6 about right about this time. A measure of the people in the
7 Division of Enforcement taking the case was a good case.

8 The statement let you issue a press release, in
9 those days and today too, litigation releases. But if a case
10 was deemed to be really important, you got to issue a press
11 release. And if somebody would be quoted in it, the only
12 litigation on this, nobody is quoted. Nobody is mentioned.
13 It may not even say these were brought by the Fort Worth
14 office. So it was a real badge of honor to bring a case
15 where there was a press release, and you know, maybe if you
16 were lucky enough, the people watching would actually let you
17 be quoted in it. And in my case, if I would be lucky, Hal
18 Degenhardt may be quoted in it.

19 BY MR. KOTZ:

20 Q But with respect to these three cases --

21 A Okay. There were no press releases issued, but on
22 the (b)(6), (b)(7)c case I remember asking, you know, this is a
23 huge case. It's very important. It was in the "Wall Street
24 Journal." The biggest case in (b)(6), (b)(7)c in years, which is
25 where it was based, and was told we don't think it's

1 important enough for a press release.

2 When I brought the third one in -- when we, my
3 office, my staff, brought the third one -- United American,
4 this is November 2000. I received a call. I would rather
5 not mention the person's name, because he was a colleague.
6 But I received a call from somebody very, very senior in
7 enforcement.

8 Q From Washington?

9 A No.

10 Q Okay, but not at Forth Worth?

11 A Not at Fort Worth.

12 Q Okay.

13 A Well, I assume he got the message from Washington.

14 Q Okay.

15 A He said, "Spence."

16 Q In a nice way.

17 A Yes. "Spence, you know you got to spend your
18 resources and time on financial fraud. What are you bringing
19 these cases for," and, you know.

20 Q So, as far as --

21 A It was very discouraging.

22 Q Okay. And so while you were very proud of these
23 three cases that were brought under you, the response from
24 enforcement as a whole was these are not the type of cases we
25 should be bringing. We should be bringing more UD and

1 financial fraud cases.

2 A Well, you know, probably the way they would
3 remember it, if anyone remembers it is, you know, they would
4 say these are important cases too, but you're spending an
5 inordinate amount of your staff resources on these cases and
6 not enough on the financial fraud cases. That's probably the
7 way they would say it.

8 Q But the message that you got was that you should be
9 bringing different cases from these three, which were similar
10 to Stanford?

11 A You know, I hear what you're saying, and not so
12 much that we shouldn't bring these cases, but there was
13 suggestion that we spend way too much of our resources on
14 these kinds of cases. And those resources would be better
15 deployed on financial fraud cases. The kind of message I got
16 from that was it's going to be harder to get them excited
17 about these kinds of cases going forward. And, you know, we
18 all want to please our superiors, and that's what Hal and I
19 wanted to do. And, well, we were very frustrated about it,
20 because by 2000 you had talked about, you know, springing
21 more cases than anybody.

22 You know, right about this time it was turning it
23 around or really going good, and what I used to say to them
24 is we bring a ton of financial fraud cases, plus we bring
25 these on top of that. Isn't that good? We bring both. The

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1 only thing that people would sometimes focus on, fairly or
2 unfairly, they seem to focus on these and not focus on the
3 other good cases we were bringing, like (b)(5), (b)(7)a and
4 Halliburton. I could give you list after list, but it was

5 never enough.

6 Q Okay.

7 A So when this 2002 exam came up, which I think you
8 asked me about, which I said I don't remember if I saw the
9 report; but, I pointed to the fact, you know, that this was
10 an outfit that was structured similar to these three. But at
11 least with these three we had evidence of fraud on Stanford
12 at that time. Even the examiner report didn't reference any
13 fraud. It just referenced an unregistered case, that
14 evidence was in Antigua. At one point I called our office of
15 international affairs. It was very, very hard to get the
16 Commission in those days to be aggressive. It's different
17 now after Madoff. Okay? It's a different world.

18 Q Right.

19 A But to push the envelope? You know, and I called
20 them and I said, "Hey, we've got this situation. How hard of
21 it would be to get information in Antigua?" "Almost
22 impossible." Okay. I'm paraphrasing, but, in general, it's
23 an Antiguan bank. No way. Forget about it, impossible. So
24 I bring three great fraud cases collectively, you know, \$600
25 million, and I have Stanford in front of me. And I'm sure

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1 this was going through my head.

2 I don't specifically remember it, but no fraud,
3 bank CDs, no complaining investors, no victims, beat over the
4 head to bring financial fraud cases, and then by this time
5 after Enron -- and I'm going to show you something else --
6 we're getting a hundred complaints and referrals like a
7 month. And they're all coming in to me, except the examiner

8 referrals. Those go to Hal.

9 Everything else comes to me. I got a hundred
10 things on my desk. I've got enough people to work one of
11 them, two of them, and I have to make choices. So I'm not
12 going to pick Stanford with all those issues at that time,
13 not knowing what we know now. It would have been a very
14 unpopular decision, and in hindsight I wish it would have
15 been different. Now, the (inaudible) factor I talked to you
16 about when we were off the record --

17 Q Yeah. Yeah. I want to ask you about that. And
18 this is the matter involving (b)(5), (b)(7)a, and you showed me
19 a picture. This is a picture of -- can you tell me who's in
20 this picture?

21 A Yeah. The (b)(6), (b)(7)c is (b)(6), (b)(7)c, staff attorney in
22 the Fort Worth office who (b)(6), (b)(7)c. The middle
23 person in (b)(6), (b)(7)c, a senior accountant in the Fort Worth
24 office. Both of them worked for me and that's me on the end.
25 I was a lot skinnier than I am now. And I'm going to tell

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1 you the genesis of this paper --

2 Q Yeah, please.

3 A -- because it's very important to your analysis, at
4 least of the Fort Worth office.

5 Q Right.

6 A Okay. So I get these intervening events that
7 happened between the '98 exam and this 2002 exam, which I may
8 or may not have seen. In that interim period, we came up on
9 a case. We came up with an idea. I can't remember who came
10 up with it about we thought there was an industry involving

11 (b)(5), (b)(7)a
12

13 (b)(5), (b)(7)a

14 (b)(5), (b)(7)a You may or may not know bank instruments
15 are not exempted. They are excluded from being securities
16 under the securities laws.

17 Q Right.

18 A Black and white; however, (b)(5), (b)(7)a

19 (b)(5), (b)(7)a

20 And we thought there was fraud going on, because investors,
21 this market, was like a billion dollars or something like
22 that. It was a huge market, and investors were buying them.
23 I think they were buying regular bank CDs and there was a lot
24 of misleading aspects about it in our view.

25 It was a huge industry, and for us to have to

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1 investigate a fraud case would have shaken a lot of banks.
2 And we came up with the idea. We set up a memo, a formal
3 order memo to open the case. And, you remember, Denver
4 micromanaged us, so all of our memos had to go through
5 Denver. Well, in this instance they got our memo and they go
6 wow, this is incredible. They got very, very excited, and
7 they said, you know, this is huge. Why don't we do it
8 jointly?

9 We said, great. You know, we'd love to have your
10 support here. So it was that case (b)(6), (b)(7)c and (b)(6), (b)(7)c.

11 (b)(6), (b)(7)c had taken over the office by then in Denver from (b)(6), (b)(7)c

12 (b)(6), (b)(7)c And we sent it up and basically after sitting there
13 probably for a long time, which is the way things occurred in

14 those days, (b)(5), (b)(7)a
15 (b)(5), (b)(7)a
16
17
18
19
20
21
22
23
24 (b)(5), (b)(7)a Go see how much time we spent on this
25 case. Okay? while, in the meantime, all these other fires

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1 are burning -- blazing -- okay. But we thought, you know,
2 we're going to maybe take a shot on this one. This is
3 important. So we set it up.
4 Finally, we decide we have to go to Washington to
5 lobby, the only way we were going to get it through. So we
6 go up. (b)(6), (b)(7)c, me, Hal, these two guys, (b)(6), (b)(7)c and (b)(6), (b)(7)c
7 and we have a big meeting with market reg in a big room, (b)(6), (b)(7)c
8 (b)(6), (b)(7)c driving it. (b)(5), (b)(7)a So we go to
9 whoever was the head of enforcement at the time: walker or
10 (b)(6), (b)(7)c, who I respect them both immensely. (Inaudible.) I
11 can't say anything bad about either of them. (b)(5), (b)(7)a

12 (b)(5), (b)(7)a
13
14
15 I want to say the memo to the commission that was
16 the end of 2000. So where I'm going with this is, with the

17 weight of Denver behind us and all this time and effort, and
18 everything else, we couldn't get the Commission or the staff
19 to let us pursue an investigation of a case involving
20 (b)(5), (b)(7)a I just couldn't imagine the fight
21 I would have and the possibility and the unpopularity of
22 pursuing authority for an investigation of someone who's
23 selling Antigua bank CDs with no evidence of fraud. Okay?
24 So I mean at least in terms of my state of mind and Hal's,
25 this is right. And thank you for giving me the opportunity

40

1 to do that.

2 Q All right. Let me show you another document, and
3 this is a complaint dated October 28, 2002, from (b)(6), (b)(7)c
4 (b)(6), (b)(7)c to the SEC. Did you see this document?

5 A I'm pretty sure I saw it, because I see Hal's
6 handwriting on the top right where he was routing this to
7 Hugh Wright, who was the head of regulation, kind of my
8 counterpart on the regulation side, (b)(6), (b)(7)c, who was kind of
9 on the investor relations person, and then me.

10 Q Okay. And so we talked before about the 1998
11 commentary. Now, with respect to 2002, what do you remember
12 happened with this complaint October 28, 2002, and/or the
13 exam report? There was some reference in some e-mails that
14 we had about referring it to the TSSB, although that's not
15 clear either. What do you remember about what was done with
16 the (b)(6), (b)(7)c complaint?

17 A Okay. When read these documents, first of all, I
18 don't really have any recollection of this. Everything I'm
19 telling you is based on what I've read.

20 Q Okay.

21 A Although I do have a very independent recollection
22 of being overwhelmed by these issues I mentioned to you.

23 Q Right.

24 A Okay. And general and as it relates to Stanford.

25 Q Right.

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1 A But I had -- the Fort Worth office received -- this
2 complaint letter is dated October 2002, but it wasn't
3 actually received in Fort Worth until December.

4 Q Right.

5 A Okay. It's reflected that this was routed to me by
6 Hal. So I'm sure I got it.

7 Q Right.

8 A You'll note that there's, by the way, a letter
9 itself. Again, the person hadn't lost any money and not
10 received any money, but there were some red flags that were
11 raised in the letter.

12 Q Right.

13 A Okay. You'll notice that consists of heavy
14 reference in here these are bank CDs which, you know, again
15 seemed to me an important factor.

16 Q Right.

17 A In our mind in Fort Worth, but nonetheless. So
18 this is December '02. You go to, and then the exam report
19 that you showed me was about the same time, December '02.

20 Q Right.

21 A A little after. Okay. And then if you look at the
22 string of e-mails, if you look at this document here --

Barasch.txt

23 Q Right.

24 A -- it's a one-page document. There's an e-mail
25 from (b)(6), (b)(7)c .

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1 Q Right.

2 A Forwarding an exam report.

3 Q Right.

4 A So, right now I'm refreshed. I probably did
5 receive that other exam report, the one that had no fraud in
6 it, the one that always said "unregistered securities," but
7 nevertheless were sent to me and I forwarded it on to one of
8 my branch chiefs, (b)(6), (b)(7)c , and said "Take a look at
9 this."

10 Q Right.

11 A Again, there was no urgency, because of all those
12 reasons I just told you.

13 Q Right.

14 A Okay. But rather than put it in the trash or
15 shredding it, which I had to do to many, many, many
16 complaints because there were so many of them, but something
17 made me send it over to (b)(6), (b)(7)c to look at, and I don't know why.
18 I don't know what was in my mind. And I said, (b)(6), (b)(7)c take a
19 look at it." And then if you look there's another string of
20 e-mails. This one.

21 Q Right.

22 A And there's a note from (b)(6), (b)(7)c to (b)(6), (b)(7)c .
23 It's an e-mail. It's 12/16/02.

24 Q Yeah.

25 A And somehow I guess the exam staff knew that I had

1 forwarded this complaint. I was going to forward it to (b)(6), (b)(7)c
2 because they're now e-mailing (b)(6), (b)(7)c as well.

3 Q Right.

4 A And (b)(6), (b)(7)c writes back to them, "You may be aware that
5 before you brought this matter to my attention, Spence had
6 already referred it to the TSSB," which is the Texas State
7 Securities Board, "based on a complaint. Neither you nor I
8 knew about this referral. I have since conferred with Spence
9 about it. We decided to let the state continue to pursue the
10 case. When you are finished with your report, however, I
11 would like to read it. At that time I will reevaluate our
12 interest in the matter."

13 What I think (b)(6), (b)(7)c is referring to is this referral
14 to the TSSB. It might have been like an old one, but it had
15 been before this sequence of events in December.

16 Q You don't think he was referring to the October 28,
17 2002, complaint?

18 A I think he might have been. You're right.

19 Q I think --

20 A You're right. So, nevertheless it appears from
21 this that at this point in time the decision was made to
22 refer it to the state.

23 Q Okay. But this report, do you remember,
24 independently from the document, referring this, either the
25 Stanford matter or this particular complaint, October 28,

1 2002, to the TSSB?

2 A I don't remember that. You know, I do remember
3 referring it in 1998. I seem to slightly recall that, but
4 now fast forward 2002, I don't specifically recall that. But
5 based on this exchange, I wouldn't argue with it.

6 Q And so but you do know that the SEC didn't bring an
7 action at that time or didn't start an investigation based on
8 either the October 28, 2002 complaint or the December 2002
9 investment advisor exam for the reasons you described
10 earlier?

11 A Other than asking (b)(6), (b)(7)c, who was an enforcement
12 branch chief, to take a look at it, nothing beyond that.

13 Q All right. Let me show you another document, and
14 it's attached to the e-mail on the top that's dated
15 10/12/2003. And it's this anonymous complaint dated
16 September 1, 2003.

17 A Yeah, from (b)(6), (b)(7)c. Yes. That's to me by
18 (b)(6), (b)(7)c.

19 Q Right. Right. Right. Well, actually --

20 A This one here.

21 Q It says, "December 1, 2003 NASD complaint center."

22 A Okay.

23 Q This is an anonymous complaint from an insider
24 alleging that "Stanford Financial's subject of an (inaudible)
25 Corporation fraud scandal for its massive Ponzi scheme." Do

1 you remember ever seeing this document?

2 A I have no recollection right now of seeing that,

3 so-called. If there's something that says it was sent to me,
4 I wouldn't deny seeing this.

5 Q Yeah. I mean, it's based on a report from NASD
6 concerning Stanford Financial Group.

7 A Okay. It was sent to me. Oh, yeah. It was sent
8 to me by Hal then.

9 Q Right.

10 A Okay.

11 Q But you don't remember that right now. And let me
12 ask you about the other document. This is dated August 4,
13 2003, from Texas State Securities Board that was sent to you
14 by (b)(6), (b)(7)c. And that attached a letter from (b)(6), (b)(7)c
15 (b)(6), (b)(7)c, who was the (b)(6), (b)(7)c in the (b)(6), (b)(7)c cases you
16 referenced earlier. Do you remember seeing that document?

17 A I don't remember it.

18 Q It didn't relate to the investigation at the time?

19 A This is my stuff?

20 Q Yeah.

21 A This is yours?

22 Q Sure.

23 (The witness examined the document.)

24 THE WITNESS: Yes. I don't remember seeing it, but
25 I'm sure I got it.

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1 BY MR. KOTZ:

2 Q Okay.

3 A Just so you know, the State had a practice of
4 sending us virtually every complaint they got. So it would
5 have been many, many that I received from them.

Barasch.txt

6 Q Sure. And do you remember at a certain point in
7 time that there was discussions between (b)(6), (b)(7)c and
8 (b)(6), (b)(7)c about the Stanford matter about what to do? And I
9 bring your attention to an e-mail dated 10/30/2003, 6:45 p.m.
10 That's right there. And this is after that anonymous
11 complaint was sent, (b)(6), (b)(7)c says to you, "Looks like
12 the same one we received before. (b)(6), (b)(7)c checking into
13 it. He and I were speaking with (b)(6), (b)(7)c Do you remember that
14 at a certain point in time (b)(6), (b)(7)c and (b)(6), (b)(7)c took
15 a look at this anonymous complaint in terms of whether they
16 might want to bring an action. Do you remember that?

17 A Is that the same complaint that (b)(6), (b)(7)c has?
18 No. This is not the (b)(6), (b)(7)c.

19 Q Right. That's the anonymous complaint that I have
20 said. Do you remember anything about that?

21 A The one that I had sent to (b)(6), (b)(7)c to look at?

22 Q Yeah.

23 A It's different.

24 Q Yeah.

25 A Okay. Oh, the one that came from Help?

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1 Q Yeah.

2 A Okay. I don't happen to independently recall this,
3 no. But I will tell you this. It was not uncommon that
4 regulation staff, you know, would -- issues -- or talk issues
5 with specific people on the enforcement staff -- you know,
6 informally, that might get them interested in something that
7 I would know about it -- which I know eventually it did
8 practice and encouraged it. So --

9 Q Okay. (b)(6), (b)(7)c says to you in this e-mail,
10 "Looks like the same one I received before. I just really
11 checked into it." So it looks like you are --
12 A I might not have talked to (b)(6), (b)(7)c about it. I'm
13 sorry. I guess I did. I don't recall.
14 Q All right. And then there was another
15 investigative report -- I'm sorry -- an exam report for
16 review examination recap sheet. There was a 2004 report. It
17 should be right there, the 2004 broker-dealer exam report.
18 A Yeah. Yeah.
19 Q Do you remember seeing this?
20 A No. I don't, only just it might have something on
21 another page. It says, "Management review date," page 2605.
22 Q Right.
23 A That was a response.
24 Q And the thing I wanted to ask you about this
25 memorandum dated 3/14/2005 to you from Victoria Prescott with

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1 a copy to Hugh Wright and Julie Preuitt, right here, we were
2 also trying to get a sense of that because that was around
3 the time you left. Do you remember ever getting this
4 document, the 3/14/2005 memo?
5 A No recollection; but, I want to show you something.
6 Q Okay.
7 A This is the press release about me leaving the SEC.
8 It's dated before this. I had recused myself from all new
9 matters before that press release, when I had kind of given
10 informal notice that I was leaving. So by this date, the
11 14th, '05, you know, basically, I said, "Listen. I'm not

12 going to be involved in any new matters because my successor
13 is going to have to live with this. I would rather them
14 decide."

15 Q Right. So it's likely, based on that timeline,
16 that while your name was on it, because you were still the
17 head of the office, you may very well never have seen this
18 3/14/2005 memo.

19 A You know, if it had been stuck in my box I wouldn't
20 have read it and I wouldn't have dealt with it.

21 Q So, I see that --

22 A You know, they got (inaudible.) I had recused
23 myself from anything involving any new matters and all I was
24 doing was helping organize the files records for a healthy
25 transition to my successor.

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1 Q Okay. Seeing --

2 A On top of that I had a ton of leave that I had
3 never taken, so I was out of the office a lot.

4 Q Okay. You may never have seen that 3/14/2005 memo?

5 A No. Sorry I'm talking circles around you. If I
6 saw it, I'm certain I wouldn't have read it.

7 Q Okay. Let me ask you about something else. There
8 was (inaudible) regulatory summit. Do you remember that was
9 in it?

10 A Vaguely.

11 Q There was a regulatory summit in Austin in 2005,
12 March 2005; and, at that summit Julia Prescott made a
13 presentation about Stanford. Do you remember that?

14 A I remember the summits. Can I describe that for

15 you?

16 Q Sure.

17 A Because it's important.

18 Q Sure.

19 A It would be a big room with tables around the room
20 like a big square, and like the United Nations. You'd have
21 Kansas, Arkansas, you know, Texas, Oklahoma, and you know,
22 the NASD office from New Orleans. You'd have the NASD office
23 from Dallas, the NASD office from Kansas City. You'd have
24 the SEC and a few miscellaneous, and it was a 2-3 hour
25 meeting. So everyone around the room, and everybody would

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1 basically say here's what's up in our office, or our region.

2 It was very on the surface. You know what I'm saying?

3 Q Right.

4 A And then somebody might mention they're working on
5 a problem with such and such company; and then Arkansas would
6 go, hey, we're having the same thing. Let's talk. You know,
7 then they e-mail or call each other. Okay. And nobody could
8 have the floor for more than three or four minutes or they
9 couldn't finish the room. So I went to that as a farewell to
10 these people that I had worked with closely for a long time.
11 So I went to that summit and I was there.

12 Q Have you heard Victoria Prescott's presentation?

13 A I have no recollection of that.

14 Q Do you remember anything that occurred, from what
15 we understand, Victoria Prescott made the presentation about
16 Stanford, and you and/or Hal Degenhardt were concerned that
17 Victoria Prescott might have given the impression that the

18 Enforcement Division in Forth Worth was going to bring an
19 action against Stanford and that wasn't necessarily the case.

20 So you and/or Hal Degenhardt went over to her
21 afterwards and said, "You know, we don't know that
22 necessarily we're going to be bringing this case, and yet you
23 made this presentation that there was some concern about the
24 fact that this presentation was made." Do you remember that
25 at all?

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1 A I don't.

2 Q Do you remember anything about Prescott's
3 presentation about Stanford?

4 A I couldn't even tell you if she was there.

5 Q Okay. There were probably a bunch of summits that
6 you went to?

7 A There were about three a year over seven or eight
8 years and, like I said, there would be 10 people who would
9 talk in the whole thing, David; and so, if we started at nine
10 we'd be out of there before lunch. So I'm not saying she
11 didn't do it. And what you described, you know, look at
12 Victoria's (b)(6), (b)(7)c okay?

13 Q why? what's in her (b)(6), (b)(7)c ?

14 A (b)(6), (b)(7)c

15 (b)(6), (b)(7)c

16 Q So it does potentially ring true, the

17 A No. It doesn't ring true, but I'm saying that it
18 doesn't surprise me if that's what in fact happened. But
19 what I'll tell you, I didn't feel like I had any stake in it
20 at that point, because I was going to be there. And I didn't

21 feel like it was up to me to make decisions for the office.
22 Now, if she had misrepresented something, you know, said
23 something specific and misrepresented, I might have said
24 something. But, David, I wouldn't have been the one at that
25 point making decisions what we're going to do, or move

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1 forward, or not do.

2 Q Okay. Let's talk a little bit now about your quest
3 after you left to represent Stanford.

4 A Yes.

5 Q Okay. And so, you know, you can just tell me
6 initially what you remember.

7 A I'm going to tell you the story?

8 Q Yeah.

9 A Okay. There were some documents in this series.

10 Q Yeah. There are a couple of e-mails.

11 A Just to help you on the dates. Sometime around
12 November of 2006 I had a phone call of unsolicited
13 out-of-the-blue phone call of someone named Mauricio Alvarez
14 or Alvaredo, and he represented himself to be the general
15 counsel of Stanford. And I was helping him get previous
16 (inaudible) with this case. And he told me that there was an
17 investigation of Stanford going on in the Fort Worth office
18 of the SEC and the firm was represented by Tom Sjoblom or
19 Sjoblom. I don't know how it's pronounced.

20 Q Right.

21 A And they were very happy, but they thought it would
22 be helpful to have a local. Tom was out of Washington. So
23 they wanted to have somebody, a local attorney, as local

24 counsel on the case. Was I interested? I said, "Of course."
25 And they said, "Okay. Why don't you come to Miami, meet with

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1 the people at the company," which I guess where they were
2 officed or based, or they were at at the time because their
3 office was based in Houston. But I didn't even know that at
4 the time. And "Meet with us and talk about this." So I
5 hadn't -- didn't considered myself hired, but I was going to
6 meet with them about this possible engagement. So I flew to
7 Miami like the first week of --

8 Q Now, just before we get into a little more detail,
9 we understand that there was a request made to the SEC
10 earlier in June of 2005 about representing Stanford. I just
11 want to make sure we have the dates correct.

12 A 2005 I had my one-year ban. Okay. I had a
13 one-year ethical ban, because I was an SES or SO, or whatever
14 they're called. So I couldn't practice before the Commission
15 for a year.

16 Q Right. But you can do things in the background. I
17 mean, just because you couldn't practice before the
18 Commission, I don't know that necessarily -- I'm not an
19 ethics lawyer, but I don't know necessarily that would mean
20 you couldn't be representing Stanford. But I believe
21 there's --

22 A From my impression, I don't remember that.

23 Q Yeah. Here. Let me show you an e-mail June 20,
24 2005. Yeah. I thought that was in the set.

25 A Yeah. Yeah. Obviously this happened. I just

1 don't remember this. Maybe I'm off here. I don't think this
2 was in the materials you sent me.

3 Q Yeah. I'm sorry. I thought it was. I mean we
4 have -- our records show that there was a June 2005 request,
5 a November 2006 request.

6 A Right?

7 Q And then something later in 2009.

8 A Okay. Yeah, I don't remember this but whatever it
9 is I can tell you nothing had ever happened. I never
10 represented them. I never did anything. My recollection is
11 every time I talk to Rick Connor, the answer was "No. I
12 couldn't do it." So I didn't do it and that was that.

13 Q Okay. So getting back to the story you're not sure
14 whether it was 2005 or 2006, but at some point --

15 A I'm sorry. I guess it percolated back up again in
16 '06.

17 Q Okay. All right. So what else do you remember
18 about that?

19 A '05 I have no recollection whatsoever, but -- I
20 can't remember what would have prompted me to think that I
21 might work on something related to Stanford in '05.

22 Q Okay.

23 A I'm certain, 98% certain, that the call from
24 Mauricio was '06.

25 Q Okay.

1 A So Stanford might have come up on something else;

2 you know, another lawyer might have asked me something. I
3 just don't know, but I didn't do it. Rick said, "You can't
4 do it." I don't specifically recall, but every time I talked
5 to Rick he said "You can't do it."

6 Q Okay.

7 A Okay. So fast-forward to '06. And at this point I
8 thought this might be a new matter, something new, different,
9 because the way Rick explained it to me I can work on
10 something as long as it's not the same matter that was there
11 when I was at the Commission, a different matter, and that
12 takes issue in '09, which you see in the e-mails.

13 Q Right. Right.

14 A So all I remember is Rick explaining to me,
15 "Spence, you can work on it, but not if it's the same
16 matter." So '06 came around and I got the call from
17 Mauricio, and so he said "Come out and I'll tell you what
18 it's about." We had almost no calls. Fly to Miami and I'll
19 introduce you to everybody and I'll tell you what this is
20 about. And I flew to Miami and it was incredibly
21 embarrassing.

22 First of all, there was not one person there for me
23 to be with. Nobody was there and Mauricio wasn't even there.
24 I came into the office and I finally got a secretary, and she
25 said, "Mauricio pulled out his back, and he's in incredible

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1 pain and he apologizes, but, you know, he'll try to get over
2 there." I know I just sat there in the lobby, and Mauricio
3 finally comes in, apologized profusely, and late in the day.
4 I just sit in the waiting room for like over an hour. And he

5 just limped horribly, and he had a flight to somewhere the
6 next day, Paris or something and he had to go to the doctor
7 and for the back. So we sat for 15 minutes, and all he did
8 was handed me a stack of Stanford promotional documents, the
9 stuff that's kind of in the lobby.

10 Q Right.

11 A You know, that you can pick up, and he gave me
12 about four or five letters, which were copies of letters that
13 the firm had sent in the last few months to the SEC and NASD
14 in response to their request for records.

15 Q Right. And you think this was shortly before the
16 November 2006 timeframe?

17 A This was right in that timeframe. This was the
18 November '06 timeframe, not the June.

19 Q Right.

20 A I don't think June.

21 Q Right. Okay.

22 A I know that. I have no -- can't remember what that
23 is. I can't remember what that is.

24 Q Okay.

25 A But I'll see if I can figure it out.

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1 Q Okay.

2 A I can, if you want, call and let you know.

3 Q Okay.

4 A But that's really odd. I can't imagine what it
5 would be. I know I was only at the firm for a month.

6 Q Right.

7 A Okay. So he called me, I go there, and we meet for

8 15 minutes. He gets Tom Sjoblom on the phone. It was very
9 awkward because Tom had no clue that Mauricio was bringing in
10 other counsel. So he puts it on the speaker, and Tom and I
11 kind of knew each other vaguely from the SEC days, because he
12 had worked there earlier.

13 Q Right. Right.

14 A And he goes, "Hey, Tom," blah, blah, blah. You
15 know. "I've got Spence Farish here. You know Spence."
16 "Yeah, hey." He says, "wanted to let you know he's going to
17 be working on this with you," and it was almost like silence.
18 I was so stunned. I felt bad for Tom. I felt very awkward
19 and embarrassed.

20 Q Right.

21 A And he gave me this. He says, "Read it." And he
22 says, "we'll get back to you." That was it. I felt really
23 guilty. I billed him for the trip. I felt horrible. I mean
24 it wasn't my fault, but I felt horrible because nothing was
25 done.

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1 Q Right.

2 A I came back, flipped through the materials, which
3 was kind of promotional stuff, flipped through the letters
4 that basically said, "This is not a security. This is
5 Antigua. You have no right to look at the records." And
6 then I called the SEC and said, "Hey, I'm going to be working
7 on this new matter."

8 Q Right.

9 A And I think it's something new from whatever it was
10 that you said I couldn't work on before.

11 Q Right.

12 A And Rick looked into it. Great guy, by the way. I
13 don't know if he's still there.

14 Q Yeah.

15 A You know, very, very nice guy. And, you know, he
16 called me and he said -- you'll see it in his e-mail, "Please
17 call me to discuss. I'm sitting here and don't want to put
18 it in writing." And he said, "Spence, I'm sorry. We looked
19 into it." And he made reference to this round table with
20 Victoria's --

21 Q Right.

22 A -- thing. And, you know, so I said, "Rick, if
23 that's the sole basis for me to having a conflict on this, I
24 have to tell you, one, I don't remember it. Two, the
25 discussions at these meetings, these roundtables, are so

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1 superficial, and at such a high level, you know, I can't
2 imagine anything of any significance there would have been."
3 I said, "would you please reconsider." I needed the work.
4 But I wanted it to be ethical work.

5 Q Okay. Right.

6 A And he said, "Okay." I said, "Just please
7 doublecheck," and he called me back again and said, "Spence,
8 sorry." I called Mauricio. I said "I can't work on it. I
9 had done absolutely nothing to that point." And he was --
10 you know, but he hasn't asked me to do anything on that yet.

11 Q Had he gotten back to you?

12 A No. And one thing he had done is he had set up a
13 phone call with me and Tom Sjoblom and him to talk about the

14 case, and I was in Dubai on an FCPA case. And he set it up
15 when I was in Dubai, so I couldn't make the call. So that we
16 never had the call. Now, there's one thing he did do. He
17 sent me a draft letter to the NASD that Tom had done.

18 And he says, "Spence, do you have any comments on
19 this?" I knew nothing about anything, about the case. I
20 hadn't been debriefed, and I looked at it for two minutes.
21 It looked like a carbon copy of all the other letters that he
22 gave me. So I wrote him back. There's an e-mail on this. I
23 think it is in your pile. And I said something like, you
24 know, "Hey, as much as I'd like to tell you I have pearls of
25 wisdom, I have nothing to add."

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1 So that was the extent of my involvement with
2 Stanford. I called them back after Rick called me and said,
3 "I can't work on it." He said, "Okay." Never heard another
4 word.

5 Q Okay. And so it was the distinction between which
6 matter you worked on. Right?

7 A Fast forward.

8 Q I know, but --

9 A Oh, I'm sorry. Go ahead.

10 Q But even at that time when you talked to Rick
11 Connor in 2006, did you say here is what I had -- here were
12 my connections or involvement with Stanford while I was --

13 A I didn't remember. I just didn't remember
14 anything.

15 Q You didn't mention the '98 MUI or the 2002 matter?

16 A Maybe I said -- you know, maybe there was something

17 back in 1998 or in 2005 and 6. Right? I just can't say I
18 would have mentioned something from 1998.

19 Q But you don't remember mentioning the 2002.

20 A Quite frankly, until you sent it all to me, I
21 didn't remember really any of that.

22 Q Right.

23 A Nothing was done, David. I mean I had a thousand
24 things kind of cross my desk and Hal was the regular who
25 oversaw the exams. It would have been a blip.

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1 Q Okay. And then in 2009, what happens then?

2 A Okay. 2009 the whole thing blows up. Every
3 lawyer in Texas and beyond is going to get rich over this
4 case. Okay? And I hated being on the sidelines. And I was
5 contacted right and left by people that do things, represent
6 them. And I thought, you know, one other, Mr. Rick Connor,
7 and I said, "Rick, now it's five years later." Four years
8 later? This was brought in December '09?

9 Q Yeah, late '09. Yeah, the e-mails are in November.

10 A So it's almost five years after I left the
11 Commission.

12 Q That's after. The e-mails are in March '09.

13 A March '09, okay. Right, okay. So this is four
14 years after I left the Commission, and to me the thought that
15 this would be a matter that would still be lingering, you
16 keep using new matter approach?

17 Q Right.

18 A And a new matter is, as I'm sure you found out in
19 your work, it sometimes gets stale and old, and whatever.

20 But, you know, I know the Fort Worth is real good about
21 moving things, whatever. You know, but I said, "Hey, Rick.
22 This is a new matter. I'd like to work on it. I don't know
23 how or what, yet, but I'm getting lots and lots of calls."

24 Q Right.

25 A And, he said, "Okay. Let me see." And then

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1 somewhere right about that time, right then the staff is
2 getting slammed in Fort Worth for, you know, why did it take
3 so long. And the question was when did this thing start.
4 When did this matter start, and Steven Korotash, a good
5 friend of mine who I think the world of, and I promoted up to
6 a point where he could get my job is quoted in the "Journal"
7 and the "Times." "This matter didn't start until 2006."
8 There's a quote.

9 Q Right.

10 A So I send it to Rick, and I go, "Hey, here's my
11 proof, and this is a new matter. It's right there." Steve
12 Courtney says, "This matter started in '06." That was a year
13 after I left. So the way I see it, I could work on it.

14 Q Right.

15 A Rick in his way that he does things is doesn't
16 believe in sending e-mails; calls me on the phone. And I
17 photocopied the article where it has his quote.

18 Q Right.

19 A And he hemmed and hawed. And I said, "Rick, can
20 you possibly dispute what I'm saying? I think I'm good."

21 Q Right.

22 A And in the call, I don't remember the words he

23 used, but it was something along the lines that Steven
24 misspoke.

25 Q Okay.

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1 A And that the matter really did go back before that,
2 and, you know. So what was left out there in the press was
3 '06, but he was telling me it was something earlier, and I
4 wasn't going to argue with him. I didn't want to embarrass
5 his staff or Steve, or anything, so I just absolutely dropped
6 it.

7 Q Okay. Do remember in the 2006 timeframe that here
8 is a reference in an e-mail from you to Jeff Cohen? And he
9 said, "Jeff, FYI. I just talked to the current GC's office
10 and shared with him our conversation about Stanford. I'm
11 sure you'll be following up with these." Do you remember
12 talking to Jeff Cohen? Do you see that? Do you remember it?

13 A Yeah, yeah, I saw that e-mail, but I'll take a --
14 let me look at it again.

15 Q Jeff Cohen was a guy who worked under you while you
16 were at the Commission. Right?

17 A Right. And he was an assistant director.

18 Q And you worked very closely with him?

19 A Yeah, I worked closely with everyone in that
20 office.

21 Q Do you remember having conversations with him at
22 that time?

23 A All I could tell you is I think that when I told
24 you I called the SEC staff to tell them I'd be working on the
25 case, and I recall that I called (b)(6), (b)(7)c who was on

1 one of the letters that I told you that I'd been given. Tom
2 Sjoblom had sent it to the SEC. I think it was addressed to
3 (b)(6), (b)(7)c .

4 Q Right.

5 A There was a letter in there, or there's actually a
6 letter in there from Tom asking for a copy of the formal
7 order of investigation, and he sent the letter to (b)(6), (b)(7)c .

8 Q Right.

9 A Someone else I had hired. So she was the obvious
10 person for me to call, because I assumed she was working on
11 it, and I called (b)(6), (b)(7)c . And then Jeff called me back and
12 said, "Spence, can you work on this?" You know, he says,
13 "You know, I'm not sure you're able to work on this;" and I
14 said, "I'm already talking to Rick Connor about it."

15 Q Okay.

16 A "And my guess is that Rick will call you to talk
17 about it. I gave him your name."

18 Q So you don't think (b)(6), (b)(7)c -- you talked to
19 (b)(6), (b)(7)c at the time. You think you put a call into (b)(6), (b)(7)c
20 because she was the named person, the staff attorney, on the
21 case, and Jeff Cohen calls you back.

22 A Either I talked to (b)(6), (b)(7)c and Jeff called me back
23 or I left a message for (b)(6), (b)(7)c and Jeff called me back, so
24 I'm not sure, but I know I talked to Jeff.

25 Q Okay. But you don't remember talking to (b)(6), (b)(7)c ?

EXHIBIT 42

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of)
) File No. OIG-526
OIG-526)

COPY

SUBJECT: Interview of Witness Number 32

PAGES: 1 through 19

DATE: Wednesday, March 3, 2010

AUDIO TRANSCRIPTION

Diversified Reporting Services, Inc.

(202) 467-9200

P R O C E E D I N G S

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Whereupon,

LEYLA WYLDER

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

MR. KOTZ: We are on the record. It's 3:08 p.m. on
March 3, 2010, and we are doing a telephonic interview with
Leyla Wylder. We are at the Office of Inspector General at
the United States Securities and Exchange Commission.

Okay. Could you please state and spell your full
name for the record?

THE WITNESS: It's Leyla, L-e-y-l-a; Wylder,
W-y-d-l-e-r.

MR. KOTZ: Great. Ms. Wylder, my name is David
Kotz. I am the Inspector General of the United States
Securities and Exchange Commission. I have with me (b)(6), (b)(7)c
(b)(6), (b)(7)c from the Office of Inspector General of the United
States Securities and Exchange Commission. This is an
investigation by the Office of Inspector General, Case Number
OIG-526.

I'm going to be asking you certain questions, and
everything you say will be recorded by the tape recorder and
later transcribed. Please provide verbal answers to the
questions, as a nod of the head or another non-verbal
response won't be picked up by the tape recorder,

(b)(6), (b)(7)c

1 [REDACTED]. I really don't have the dates here, the course.

2 Q How many years would you say you had experience in
3 the financial area prior to you beginning to work for
4 Stanford?

5 A I would say about maybe 10 years.

6 Q Okay. Great. Okay. And then when did you start
7 working for Stanford? Was that in 2000?

8 A In 2000, correct.

9 Q Okay. But you had a different last name at that
10 time. Right?

11 A Correct; Vasagoitia.

12 Q What was your last name at that time?

13 A Vasagoitia.

14 Q Okay. That's V-a-s-a-g-o-i-t-i-a?

15 A Yes, sir, that's correct.

16 Q Okay. And so what was your first position at the
17 Stanford Group in 2000?

18 A He was the financial vice president, financial
19 advisor.

20 Q Okay. And how long did you serve in that position?

21 A Two years.

22 Q Okay. What were your duties in connection with
23 that position?

24 A To serve my book of business, my clientele I've had
25 for many years. Transfer my clients that I had into the

1 broker-dealer, you know, at Stanford Financial. And most of
2 my clientele was in Mexico and I traveled to Mexico and
3 transferred that book of business over the broker-dealer.

4 Q Was there a point in time where you were advised of
5 Stanford International Bank having CDs that were to be
6 invested in?

7 A I'm sorry. Repeat the question again?

8 Q Did you understand that Stanford International Bank
9 had CDs at that time?

10 A Absolutely. Absolutely. And that was one of the
11 main points that I discussed when I was hired by Stanford
12 that I was not trying to move any of my clients' assets into
13 the Stanford International Bank CDs.

14 Q Okay. So you were trying to sell those Stanford
15 National Bank CDs to your clients? No?

16 A Absolutely. Once they recruited the financial
17 advisors they would definitely start pushing the CDs, you
18 know, as one of the main products. And my intentions were
19 always to manage my clientele through the broker-dealer and
20 not to move any of my client's accounts, my client's assets,
21 into the Stanford International Bank, which I knew was an
22 offshore bank in Antigua; and, I knew it was not a bank that
23 was regulated.

24 Q Right. So Stanford, the company wanted you to kind
25 of move your clients' investments into the Stanford

1 International Bank CDs, but you didn't want to because you
2 were concerned about the fact that it was an offshore bank
3 that wasn't registered?

4 A That's correct.

5 Q Okay. Great. Did you ever understand what those
6 CDs were invested in?

7 A That I understood? Well, I went by what they were
8 saying that they were investing it in the market, bonds,
9 stocks, metals, stuff like that. I asked for a portfolio
10 appraisal and I gave them the benefit of the doubt, of
11 course, and I was never able to get a portfolio appraisal.

12 Q Okay.

13 A So if you wanted to invest as a financial advisor,
14 you put your client's money into a mutual fund. You would
15 get a portfolio appraisal of how that money is invested into
16 and is constantly updated. I was never able to get that from
17 them.

18 Q Okay. And so when did you leave the Stanford
19 Group?

20 A In November of 2000 --

21 Q 2?

22 A Yes, it was 2002.

23 Q Okay. And why did you leave?

24 A Because they terminated me. They were calling
25 people into (b)(6), (b)(7)c office and I had seen that happen

1 in prior weeks. And I was, you know, one of them, and they
2 called me in. And he said, "I just want to let you know that
3 your employment is being terminated" and that's it. And I
4 tried to talk to him, and he responded, "This is not open for
5 discussion."

6 Q And it was your understanding that the reason you
7 were terminated was because you were not getting your clients
8 to invest in these CDs. Is that right?

9 A Yes. There were so many things that I saw. I mean
10 they were pushing the CDs so much, you know. And I was not
11 playing with, you know, what they were trying to push. And I
12 was just not. I mean I was bringing clients into the
13 broker-dealer, and that was obvious to me that they were not
14 interested in that. They were interested in FAs bringing
15 money into the CDs.

16 Q Okay. Now, we have sent you a document. Is that
17 correct?

18 A That's correct.

19 Q Do you recognize this document? It's a letter
20 dated September 1, 2003.

21 A Yes, my letter.

22 Q Okay. So this two-page letter with some
23 attachments that stated that Stanford Financial is the
24 subject of a lingering corporate fraud scandal perpetrated as
25 a massive Ponzi scheme, that is your letter. You were the

1 anonymous source?

2 A Yes, sir.

3 Q Okay. And there's a reference on the second page,
4 "the insider who does not wish to remain silent, but fears
5 for his own personal safety and that of his family." Did you
6 write it with a male gender just to sort of -- I guess, why
7 did you write it that way?

8 A Because I didn't want to. I mean, if I would say
9 "her," then people would have known. I don't know.

10 Q People might have been able to identify you?

11 A Exactly.

12 Q Okay. All right. When did you first contact the
13 SEC about the Stanford Group?

14 A In 2004.

15 Q Okay. So tell us about that. Who did you call and
16 what was the conversation like?

17 A I apologized for my calls, and --

18 Q That's okay.

19 A You know. I called (b)(6), (b)(7)c .

20 Q And who is that, (b)(6), (b)(7)c ?

21 A Yeah, (b)(6), (b)(7)c , yes.

22 Q How come you called him?

23 A I was given his name by someone and I called him.

24 Q Okay.

25 A I picked up the phone and I called him because I

1 was not getting answers. I mean I went to arbitration,
2 presented my case in front of AB panel. They completely
3 ignored it -- nothing. None of my concerns were important.
4 I had just been terminated. I worked so much through my
5 career and I was a single mother back then. I had three
6 children. I had to, you know, move my clients, to find
7 somewhere else to move my clients.

8 I mean they steal your clients, and not only that
9 but the fact I was very, very clear when I retired that I did
10 not want to participate in the sale of the CDs. Anyway, I
11 picked up the phone and I talked to (b)(6), (b)(7)c. I explained
12 what just happened to me. He was, you know, very empathetic
13 about it. He understood what I was talking about. Yeah. It
14 did not appear that he did not know who Stanford Financial
15 Group was.

16 Q Wait. So he did know who Stanford Financial Group
17 was or he did not know?

18 A He did.

19 Q He did know.

20 A It seemed to me that he knew what I was telling
21 him, what I was talking about, what my problem was.

22 Q Okay. Did you tell him that you believed that the
23 Stanford International Bank CDs were a Ponzi scheme?

24 A I did. I did. I sent them copies of the e-mails,
25 copies of, you know, a list of my red flags that I brought,

1 that I never felt comfortable selling those CDs. I mean,
2 number one, the portfolio appraisal; number two, the banks
3 had never been audited by, you know, a reputable firm here in
4 the United States. They were always of years, year after
5 year, the lavish offices, just all the red flags that I
6 mentioned in my letter. All of that made me think that this
7 was the Ponzi. The guy, Allen Stanford, he was an Antiguan
8 citizen. He had been involved with the government in Antigua
9 as a -- what is it -- the chairman of the government board
10 that oversees Antigua's offshore financial sector.

11 I mean if you read those articles, there's just so
12 many things there. It says, "Gentleman has real estate,
13 newspapers, airlines, UN broker-dealers, offshore banks."
14 Can get anything here as to how he's investing his clients'
15 money. He is targeting all these Latin-American people, and
16 when I left he was already targeting U.S. people. That
17 really, you know, made me very concerned, very concerned.

18 Q And what did ^{(b)(6), (b)(7)c} say to you back?

19 A He said, in some how, some way, he said something
20 along the way like, oh, we don't want any blood on the
21 street. What he meant by that I don't know, to tell you the
22 truth. What it seemed to me or my understanding was like
23 maybe we're going to investigate; or maybe, you know, you
24 can't, unless a client or a customer loses money and calls
25 the SEC then, you know, the SEC does something about it.

1 I wasn't a client. I was a, you know, former
2 employee, but I was still -- who better else to call the SEC
3 that understands and to let them know what was going on.
4 What they did about it to this day I don't know. I know that
5 from your report that I read last year, I mean, there was a
6 lot of communications between NAMD and the SEC, and this and
7 that.

8 Q Right. Okay. But let me ask you this. When he
9 talked about blood on the street, do you think what he was
10 saying was that they didn't have enough information to
11 investigate this or that they didn't investigate cases that
12 there wasn't blood on the street? In other words, that they
13 don't normally conduct investigations where investors had
14 already lost money, and this was a case where because it was
15 a Ponzi scheme the investors were still getting paid?

16 A Like I said, you know, what he meant. I just felt
17 like, to be honest, it just felt that people knew about it
18 but it had already gotten too big, you know.

19 Q Did he give you the impression that he was not
20 going to be able to uncover it or stop it?

21 A No. You know, I'm not really sure because he
22 wanted to. You know, he said "Send me what you have." And
23 then I guess he passed the information to Victoria Prescott.
24 I spent numerous hours talking to him and to her explaining.
25 I felt like she did not know what I was referring to. I felt

EXHIBIT 43

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)

) File No. OIG-526

OIG-526)

SUBJECT: Telephone Interviews of Witness Numbers 33 and 34

PAGES: 1 through 27

PLACE: Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C.

DATE: Tuesday, March 9, 2010

ORIGINAL

TAPE TRANSCRIPTION

Diversified Reporting Services, Inc.

(202) 467-9200

1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 DAVID KOTZ, ESQ.

5

(b)(6), (b)(7)c

6

Office of Inspector General

7

Securities and Exchange Commission

8

100 F Street, N.E.

9

Washington, D.C. 20549

10

11 On behalf of the Witness:

12

MIKE O'BRIEN, ESQ.

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1 they started to add up and accumulate over time. We were
2 concerned that they didn't have the legal advice and
3 understandings of how these CDs should be marketed, and how
4 they should be -- in what proper compliance. Steps to the
5 (inaudible) with respect to the IRS.

6 MR. KOTZ: Compliance?

7 MR. RAWL: Treasury Department compliance. They
8 were somewhat reckless in that they allowed these CDs to be
9 purchased in qualified retirement plans. I pointed out to
10 them in 2005, in August, that a qualified plan under ERISA
11 would not allow for the offshore investments. It was
12 concerns like this that they did not analyze and study these
13 things enough. It was kind of strange that they would not
14 have a good understanding of these things, particularly when
15 their golden goose was at risk. They didn't do the proper
16 legal stuff around it, and those are the concerns that we had
17 early on.

18 MR. KOTZ: Okay. Did you become aware at any time
19 that the SEC was sending Stanford Group Company's clients
20 questionnaires?

21 MR. RAWL: Unfortunately, yes. Very early -- I
22 started at Stanford on May 13th of '05 -- and then three or
23 four weeks later the advisors were called in to a meeting in
24 (b)(6), (b)(7)c (phonetic) office, and that is where I learned
25 that these advisors' clients had been getting these inquiry

1 letters from the SEC, and that was somewhat alarming since I
2 just moved there and I started the process of moving my
3 clients. Now, I wasn't -- I was certainly concerned, but at
4 that point I had no money, no client money, in the CDs. I
5 was very interested to hear about that, and unfortunately,
6 management was expert in explaining these things away and
7 they (inaudible) the advisors eventually and the clients for
8 at least some period of time.

9 MR. KOTZ: But do you believe that some clients or
10 advisors had some serious questions when they found out that
11 Stanford Group Company's clients were getting questionnaires
12 from the SEC in 2005?

13 MR. RAWL: Oh, there was a guy name Mark Tidwell
14 who I was friends with and got to know better over time, and
15 he was -- his clients had received numerous letters. That
16 would probably be the timing, that he had recently started in
17 January, and most of these inquiries that got out to
18 relatively new CD holders. So I heard first-hand from Mark
19 as well as others about that -- significant concerns and the
20 concerns of their clients.

21 MR. KOTZ: So do you believe that if the SEC had
22 done a similar thing in terms of sending SEC's clients
23 questionnaires years earlier, that that might have raised red
24 flags with clients previously, such that they might have been
25 more hesitant to invest with Stanford?

1 MR. RAWL: Certainly.

2 MR. TIDWELL: Absolutely.

3 MR. KOTZ: Okay. And Mr. Tidwell, you said
4 "absolutely," correct?

5 MR. TIDWELL: That is correct, I did say that.

6 MR. KOTZ: Do you want to -- Mr. Tidwell, do you
7 want to just embellish on that? What do you mean?

8 MR. TIDWELL: Yeah, I mean I can -- this is Mark
9 Tidwell, and since I was there prior to Charlie and spent
10 some time prior to even joining Stanford digging in as much
11 as I could, but with the bank I had virtually every one of my
12 clients who had put money at the bank got that questionnaire
13 that you are talking about. And so I was probably if not the
14 first, one of the first to notify management about the FedEx
15 package, because that's how the SEC sent it to the clients,
16 that these were going out. Because my phone, as I've said,
17 my phone lit up like a Christmas tree the morning that those
18 went out. Clients were calling, were concerned, and so I --
19 as soon as I got that first call I went and asked (b)(6), (b)(7)c
20 what this was all about, and of course, as Charlie said, they
21 were very good at allaying any fears, and that this was a
22 routine and really a non-event, and don't be concerned or
23 alarmed.

24 So yeah, it was -- you know, looking back in
25 hindsight, you know, it was I guess a drill that they were

1 used to having and able to allay any fears with the advisors,
2 but as Charlie said, you know, they called us in and pretty
3 much assured us that this was not a big deal; this was just a
4 kind of a normal routine type of thing.

5 And you know, at that very point in time I had not
6 seen the questionnaire; I didn't really know. I mean, I've,
7 you know, a client read me the questions and whatnot over the
8 phone, but I couldn't really grasp what, you know, these
9 questions, where they were going. I was also, because of the
10 number of clients that had received this questionnaire, I was
11 called in front of Lena Stinson and I forget the gentleman's
12 name -- the attorney that represented Stanford on this
13 matter, I guess he was a former SEC individual attorney. And
14 so I was called in front of both that gentleman and Lena
15 Stinson to kind of just give feedback, and I guess they were
16 kind of just to do an assessment of not only the advisors but
17 I guess more importantly, you know, what the clients'
18 perception was.

19 So they asked me a lot of questions about how I was
20 dealing with it and what clients were saying, and you know,
21 we just kind of went through the questionnaire and the
22 process.

23 And so it was clearly, in my eyes, this was
24 something that they had been through before, and now, looking
25 back, they were able to make everybody comfortable and happy.

1 But to your point, had I as an advisor known this
2 prior to, you know, this would not have been a product that I
3 would have -- well, even endorsed. Especially when you have
4 upper management (inaudible) appraises and saying that there
5 was never a complaint, ever, regarding this product from any
6 clients -- there was never an issue with any regulatory body.
7 You know, I mean, they made this thing out to be the best
8 thing since sliced bread.

9 MR. KOTZ: So Stanford management represented that
10 the SEC or any other regulatory body never questioned or
11 never had an issue with these CDs?

12 MR. TIDWELL: There was never any knowledge, there
13 was never any reference to any investigation or inquiries
14 prior to, you know, that questionnaire.

15 MR. KOTZ: And so let me ask you this. Had not
16 only there been a questionnaire but the SEC followed it up
17 with other matters that would have led one working within the
18 company to believe that there was an ongoing investigation,
19 would that have been a red flag for folks like you, such that
20 you would have not had clients invest in these CDs?

21 MR. TIDWELL: Well, I mean, there's probably a very
22 high likelihood I would not have been an employee.

23 MR. KOTZ: Why do you say that?

24 MR. TIDWELL: Well, because I mean, you know, like
25 I said in the very beginning of the conversation, I actually

1 went to a seminar prior to becoming an employee of Stanford
2 -- a private seminar that they had put on for prospective
3 clients regarding the CD. And actually, two gentleman in the
4 fixed income area were doing this presentation, and that
5 opens up a whole other, whole other conversation, because
6 fixed income people representing this private proprietary
7 product know that it gives them endorsement from a different
8 viewpoint that is in my eyes, is very -- I respected that. I
9 was -- I felt that was very interesting that these gentlemen
10 would be doing that. So that gave it a lot of credibility.

11 But no, I don't think, I think I would have
12 possibly, you know, it would have been something I would have
13 liked to have evaluated and it would have been part of my
14 decision-making process. Because even on the day, my
15 departure and my resignation was a couple of days prior to
16 Charlie's, that would make it -- that would have been
17 December 12, 2007. On the very day that I got -- I call it
18 the inquisition -- that I got hammered and questioned by (b)(6), (b)(7)c
19 (b)(6), (b)(7)c and the HR representative, I asked directly about the
20 ongoing SEC investigation, and he lied. He said that there
21 was no issue, that that matter is resolved. You know, I
22 mean, again, a complete lie and deception from the power
23 (inaudible).

24 So yeah, I would have liked to have known, and I
25 think clients would have deserved to know, if there were

1 issues, no matter how big or small, that any regulatory body
2 had with that organization.

3 MR. KOTZ: Were you aware at any time that the SEC
4 had done examinations of Stanford?

5 MR. TIDWELL: You know, we had heard -- again, this
6 is all somewhat hearsay -- we had heard over the course of
7 years there may have been some grumbling here or there, but
8 all those matters were closed and they were no big deal; some
9 of them were without merit. I mean, anything that was ever
10 brought up that a governmental agency entity had inquired,
11 looked into, the response was, everything was fine. There
12 was no issue, there's nothing ongoing.

13 MR. KOTZ: And that was something that Stanford
14 management that advised you and others that they had been
15 looked at on occasion by regulatory agencies, and the
16 regulatory agencies didn't follow up or find any problems,
17 right?

18 MR. TIDWELL: I mean, you know, not to quote
19 anybody, but I mean, even some of Mr. Stanford's family
20 members, who were very removed from the business, said
21 there's never been any issue. There's been grumbling, but
22 there's never been any fines or any -- there's never been
23 anything. So --

24 MR. KOTZ: So is it fair to say --

25 MR. TIDWELL: (Inaudible) getting fined.

1 MR. KOTZ: Right. So is it fair to say that the
2 fact that you, while working there, were told that while
3 there might have been grumbling on the part of the regulatory
4 agencies, nothing was found, that gave you comfort in
5 believing that the CDs were legitimate and that if they
6 weren't legitimate, the regulatory agencies would have taken
7 action.

8 MR. TIDWELL: Well, I mean, yeah, and Mike, you can
9 cut me off if get out of bounds here, but I mean, you know,
10 it wasn't until Charles and I delivered a box of what we call
11 evidence that we were told that, you know, that Stanford told
12 the SEC, you know, "you don't have jurisdiction," and so
13 Stanford has not been cooperative with the SEC in a lot of
14 these matters. And you know, to Charlie and I's surprise and
15 probably, you can cut me off (inaudible), how does anybody
16 have the authority to tell the regulatory body that sort of
17 thing? I mean, we were shocked and dismayed.

18 So to answer your question, yeah, it gives some
19 endorsement if you guys are -- if the regulatory entities
20 have been looking into and found nothing, and it's
21 (inaudible), yeah, that's an endorsement.

22 MR. KOTZ: Mr. Rawl, is that correct, is that your
23 view, as well?

24 MR. RAWL: Yes, that's what it is. This is Charlie
25 Rawl. I was -- we were aware -- no, I was aware that

EXHIBIT 44

(b)(6), (b)(7)c
Memorandum of Interview with

(b)(6), (b)(7)c
At 3:00 p.m. on Monday March 22, 2010,

(b)(6), (b)(7)c and (b)(6), (b)(7)c spoke with (b)(6), (b)(7)c, (b)(6), (b)(7)c

(b)(6), (b)(7)c in the Division of Risk, Strategy, and Financial Innovation ("RSFI"), in (b)(6), (b)(7)c office in Washington, DC. (b)(6), (b)(7)c stated that he acts as a liaison to the Division of Corporation Finance and the Division of Enforcement.

(b)(6), (b)(7)c was shown the March 14, 2005 Victoria Prescott memo concerning Stanford, and he was particularly directed to the discussion on page 5 of this memo concerning SIB's high reported returns and its claims of "secure" and "guaranteed" investments in foreign and U.S. investment grade bonds and securities.

(b)(6), (b)(7)c stated that he would have been "deeply troubled" if shown this information in connection with an Enforcement investigation. (b)(5), (b)(7)a

(b)(5), (b)(7)a

(b)(6), (b)(7)c stated that SIB's reported returns appeared to be, roughly speaking, twice as large as the S&P 500's returns over a long period of time. (b)(6), (b)(7)c stated that even bringing generous and assuming that the S&P 500 return was 8% and that there was a 10% standard deviation from that return, that does not explain SIB's reported returns. (b)(6), (b)(7)c stated that SIB's portfolio would have to be severely leveraged, as it is "pretty darn improbable" that SIB could be such an expert stock picker as to achieve these returns without significant leverage. (b)(6), (b)(7)c stated that SIB's representation that part of its portfolio was in bonds "only amplifies the problem."

(b)(6), (b)(7)c

stated:

(b)(5), (b)(7)a

(b)(5), (b)(7)a

(b)(6), (b)(7)c stated that RSFI, or one of its predecessor units, the Office of Economic Analysis, "definitely" could have run models to evaluate the plausibility of SIB's reported returns, and that it would have been "very easy to do." (b)(6), (b)(7)c stated that SIB's returns could have, among other things, been compared to the returns of the best-performing hedge funds.

(b)(6), (b)(7)c stated that the primary liaison in RSFI to Enforcement is (b)(6), (b)(7)c who replaced (b)(6), (b)(7)c

The interview concluded at approximately 3:30 p.m.

EXHIBIT 45


Memorandum of Interview with (b)(6), (b)(7)c and Gregg Berman

At 1:30 p.m. on Tuesday March 23, 2010, (b)(6), (b)(7)c and (b)(6), (b)(7)c spoke with (b)(6), (b)(7)c, Assistant Director, and Gregg Berman, Senior Policy Advisor, in the Division of Risk, Strategy, and Financial Innovation (“RSFI”), in (b)(6), (b)(7)c office in Washington, DC.

(b)(6), (b)(7)c and Berman were shown the March 14, 2005 Victoria Prescott memo concerning Stanford, and they were particularly directed to the discussion on page 5 of this memo concerning SIB’s high reported returns and its claims of “secure” and “guaranteed” investments in foreign and U.S. investment grade bonds and securities.

Berman stated that he could not say what OEA what have done in 2005, and that the office has changed a lot since then.

(b)(5), (b)(7)a



(b)(6), (b)(7)c stated that, within the last couple of years, her group did a probabilistic analysis for Enforcement comparing returns of a suspicious hedge fund called (b)(6), (b)(7)c to those of other hedge funds, and that this analysis was used by Enforcement as a basis to go to the judge to get a TRO and/or asset freeze.

The interview concluded at approximately 2:00 p.m.

EXHIBIT 46

Memorandum of Interview with Stanford Victim

At 11:30 a.m. on Wednesday March 24, 2010, Office of the Inspector General intern (b)(6), (b)(7)c conducted a telephone interview with an investor in the Stanford Financial Group.

The investor stated that she and her now deceased husband first invested in Stanford Financial Group in July of 2004. The investor stated that in June 2004, prior to their initial investment, her husband contacted the SEC. She cannot recall which office her husband spoke with, but she said that he spoke with an office intended to educate investors. The investor stated that an SEC representative told her husband that Stanford was "very solid," "the most solid group in Texas," "prestigious," that it had "licensed brokers," and that it "had been functioning well for eighteen years."

The investor stated that and her husband increased their investments in Stanford through March of 2008, believing that the fund was a safe investment. She stated that her broker assured her that Stanford was in good shape through 2008. The investor stated that her broker told her that Allen Stanford was injecting his personally money to back the fund. The investor also stated that she was sent a Stanford newsletter in 2008 assuring investors that Stanford was performing well. The investor stated that her broker informed her that U.S. regulators "constantly" came to Stanford, and that everything was "perfect."

EXHIBIT 47

Rule 1.11 – Successive Government and Private or Other Employment

(a) A lawyer shall not accept other employment in connection with a matter which is the same as, or substantially related to, a matter in which the lawyer participated personally and substantially as a public officer or employee. Such participation includes acting on the merits of a matter in a judicial or other adjudicative capacity.

(b) If a lawyer is required to decline or to withdraw from employment under paragraph (a) on account of a personal and substantial participation in a matter, no partner or associate of that lawyer, or lawyer with an of counsel relationship to that lawyer, may knowingly accept or continue such employment except as provided in paragraphs (c) and (d) below. The disqualification of such other lawyers does not apply if the sole form of participation was as a judicial law clerk.

(c) The prohibition stated in paragraph (b) shall not apply if the personally disqualified lawyer is timely screened from any form of participation in the matter or representation as the case may be, and from sharing in any fees resulting therefrom, and if the requirements of paragraphs (d) and (e) are satisfied.

(d) Except as provided in paragraph (e), when any of counsel, lawyer, partner, or associate of a lawyer personally disqualified under paragraph (a) accepts employment in connection with a matter giving rise to the personal disqualification, the following notifications shall be required:

(1) The personally disqualified lawyer shall submit to the public department or agency by which the lawyer was formerly employed and serve on each other party to any pertinent proceeding a signed document attesting that during the period of disqualification the personally disqualified lawyer will not participate in any manner in the matter or the representation, will not discuss the matter or the representation with any partner, associate, or of counsel lawyer, and will not share in any fees for the matter or the representation.

(2) At least one affiliated lawyer shall submit to the same department or agency and serve on the same parties a signed document attesting that all affiliated lawyers are aware of the requirement that the personally disqualified lawyer be screened from participating in or discussing the matter or the representation and describing the procedures being taken to screen the personally disqualified lawyer.

(e) If a client requests in writing that the fact and subject matter of a representation subject to paragraph (d) not be disclosed by submitting the signed statements referred to in paragraph (d), such statements shall be prepared concurrently with undertaking the representation and filed with Bar Counsel under seal. If at any time thereafter the fact and subject matter of the representation are disclosed to the public or become a part of the public record, the signed statements previously prepared shall be promptly submitted as required by paragraph (d).

(f) Signed documents filed pursuant to paragraph (d) shall be available to the public,

except to the extent that a lawyer submitting a signed document demonstrates to the satisfaction of the public department or agency upon which such documents are served that public disclosure is inconsistent with Rule 1.6 or other applicable law.

(g) This rule applies to any matter involving a specific party or parties.

(h) A lawyer who participates in a program of temporary service to the Office of the District of Columbia Attorney General of the kind described in Rule 1.10(e) shall be treated as having served as a public officer or employee for purposes of paragraph (a), and the provisions of paragraphs (b)-(e) shall apply to the lawyer and to lawyers affiliated with the lawyer.

COMMENT

[1] This rule deals with lawyers who leave public office and enter other employment. It applies to judges and their law clerks as well as to lawyers who act in other capacities. It is a counterpart of Rule 1.9, as applied to an individual former government lawyer, and of Rule 1.10, as applied to a law firm.

[2] A lawyer representing a government agency, whether employed or specially retained by the government, is subject to the Rules of Professional Conduct, including the prohibition against representing adverse interests stated in Rule 1.7 and the protections afforded former clients in Rule 1.9. In addition, such a lawyer is subject to this Rule 1.11 and to statutes and government regulations concerning conflict of interest. In the District of Columbia, where there are many lawyers for the federal and D.C. governments and their agencies, a number of whom are constantly leaving government and accepting other employment, particular heed must be paid to the federal conflict-of-interest statutes. *See, e.g.*, 18 U.S.C. Chapter 11 and regulations and opinions thereunder.

[3] Rule 1.11, in paragraph (a), flatly forbids a lawyer to accept other employment in a matter in which the lawyer participated personally and substantially as a public officer or employee; participation specifically includes acting on a matter in a judicial capacity. Other than as noted in Comment [10] to this rule, there is no provision for waiver of the individual lawyer's disqualification. "Matter" is defined in paragraph (g) so as to encompass only matters that are particular to a specific party or parties. The making of rules of general applicability and the establishment of general policy will ordinarily not be a "matter" within the meaning of Rule 1.11. When a lawyer is forbidden by paragraph (a) to accept private employment in a matter, the partners and associates of that lawyer are likewise forbidden, by paragraph (b), to accept the employment unless the screening and disclosure procedures described in paragraphs (c) through (f) are followed.

[4] The rule forbids lawyers to accept other employment in connection with matters that are the same as or "substantially related" to matters in which they participated personally and substantially while serving as public officers or employees. The leading case defining "substantially related" matters in the context of former government employment is *Brown v. District of Columbia Board of Zoning Adjustment*, 486 A.2d 37 (D.C. 1984) (en banc). There the D.C. Court of Appeals, *en banc*, held that in the "revolving door" context, a showing that a

reasonable person could infer that, through participation in one matter as a public officer or employee, the former government lawyer “may have had access to information legally relevant to, or otherwise useful in” a subsequent representation, is *prima facie* evidence that the two matters are substantially related. If this *prima facie* showing is made, the former government lawyer must disprove any ethical impropriety by showing that the lawyer “could not have gained access to information during the first representation that might be useful in the later representation.” *Id.* at 49-50. In *Brown*, the Court of Appeals announced the “substantially related” test after concluding that, under former DR 9-101(B), see “Revolving Door,” 445 A.2d 615 (D.C. 1982) (*en banc*) (*per curiam*), the term “matter” was intended to embrace all matters “substantially related” to one another – a test that originated in “side-switching” litigation between private parties. See Rule 1.9, Comments [2] and [3]; *Brown*, 486 A.2d at 39-40 n. 1, 41-42 & n. 4. Accordingly, the words “or substantially related to” in paragraph (a) are an express statement of the judicial gloss in *Brown* interpreting “matter.”

[5] Paragraph (a)’s absolute disqualification of a lawyer from matters in which the lawyer participated personally and substantially carries forward a policy of avoiding both actual impropriety and the appearance of impropriety that is expressed in the federal conflict-of-interest statutes and was expressed in the former Code of Professional Responsibility. Paragraph (c) requires the screening of a disqualified lawyer from such a matter as a condition to allowing any lawyers in the disqualified lawyer’s firm to participate in it. This procedure is permitted in order to avoid imposing a serious deterrent to lawyers’ entering public service. Governments have found that they benefit from having in their service both younger and more experienced lawyers who do not intend to devote their entire careers to public service. Some lawyers might not enter into short-term public service if they thought that, as a result of their active governmental practice, a firm would hesitate to hire them because of a concern that the entire firm would be disqualified from matters as a result.

[6] There is no imputed disqualification and consequently no screening requirement in the case of a judicial law clerk. But such clerks are subject to a personal obligation not to participate in matters falling within paragraph (a), since participation by a law clerk is within the term “judicial or other adjudicative capacity.”

[7] Paragraph (d) imposes a further requirement that must be met before lawyers affiliated with a disqualified lawyer may participate in the representation. Except to the extent that the exception in paragraph (e) is satisfied, both the personally disqualified lawyer and at least one affiliated lawyer must submit to the agency signed documents basically stating that the personally disqualified lawyer will be screened from participation in the matter. The personally disqualified lawyer must also state that the lawyer will not share in any fees paid for the representation in question. And the affiliated lawyer must describe the procedures to be followed to ensure that the personally disqualified lawyer is effectively screened.

[8] Paragraph (e) makes it clear that the lawyer’s duty, under Rule 1.6, to maintain client confidences and secrets may preclude the submission of any notice required by paragraph (d). If the client requests in writing that the fact and subject matter of the representation not be disclosed, the lawyer must comply with that request. If the client makes such a request, the lawyer must abide by the client’s wishes until such time as the fact and subject matter of the

representation become public through some other means, such as a public filing. Filing a pleading or making an appearance in a proceeding before a tribunal constitutes a public filing. Once information concerning the representation is public, the notifications called for must be made promptly, and the lawyers involved may not honor a client request not to make the notifications. If a government agency has adopted rules governing practice before the agency by former government employees, members of the District of Columbia Bar are not exempted by Rule 1.11(e) from any additional or more restrictive notice requirements that the agency may impose. Thus the agency may require filing of notifications whether or not a client consents. While the lawyer cannot file a notification that the client has directed the lawyer not to file, the failure to file in accordance with agency rules may preclude the lawyer's representation of the client before the agency. Such issues are governed by the agency's rules, and Rule 1.11(e) is not intended to displace such agency requirements.

[9] Although paragraph (e) prohibits the lawyer from disclosing the fact and subject matter of the representation when the client has requested in writing that the information be kept confidential, the paragraph requires the lawyer to prepare the documents described in paragraph (d) as soon as the representation commences and to preserve the documents for possible submission to the agency and parties to any pertinent proceeding if and when the client does consent to their submission or the information becomes public.

[10] "Other employment," as used in paragraph (a) of this rule, includes the representation of a governmental body other than an agency of the government by which the lawyer was employed as a public officer or employee, but in the case of a move from one government agency to another the prohibition provided in paragraph (a) may be waived by the government agency with which the lawyer was previously employed. As used in paragraph (a), it would not be other employment for a lawyer who has left the employment of a particular government agency and taken employment with another government agency (*e.g.*, the Department of Justice) or with a private law firm to continue or accept representation of the same government agency with which the lawyer was previously employed.

[11] Paragraph (c) does not prohibit a lawyer from receiving a salary or partnership share established by prior independent agreement. It prohibits directly relating the attorney's compensation in any way to the fee in the matter in which the lawyer is disqualified. *See* D.C. Bar Legal Ethics Committee Opinion 279.

[12] Rule 1.10(e) provides an exception to the general imputation imposed by Rule 1.10(a) for lawyers assisting the Office of the District of Columbia Attorney General on a temporary basis. Rule 1.10(e) provides that lawyers providing such temporary assistance are not considered to be affiliated with their law firm during such periods of temporary assistance. However, lawyers participating in such temporary assistance programs have a potential for conflicts of interest or the abuse of information obtained while participating in such programs. It is appropriate to subject lawyers participating in temporary assistance programs to the same rules which paragraphs (a)-(g) impose on former government employees. Paragraph (h) effects this result.

[13] In addition to ethical concerns, provisions of conflict of interest statutes or

regulations may impose limitations on the conduct of lawyers while they are providing assistance to the Office of the District of Columbia Attorney or after they return from such assignments. *See, e.g.*, 18 U.S.C. §§ 207, 208. Compliance with the Rules of Professional Conduct does not necessarily constitute compliance with all of the obligations imposed by conflict of interest statutes or regulations.

EXHIBIT 48

Texas Disciplinary Rules of Professional Conduct

(Tex. Disciplinary R. Prof. Conduct, (1989) reprinted in Tex. Govt Code Ann., tit. 2, subtit. G, app. (Vernon Supp. 1995)(State Bar Rules art X [[section]]9))

I CLIENT-LAWYER RELATIONSHIP

1.10 Successive Government and Private Employment

Rule 1.10 Successive Government and Private Employment

(a) Except as law may otherwise expressly permit, a lawyer shall not represent a private client in connection with a matter in which the lawyer participated personally and substantially as a public officer or employee, unless the appropriate government agency consents after consultation.

(b) No lawyer in a firm with which a lawyer subject to paragraph (a) is associated may knowingly undertake or continue representation in such a matter unless:

(1) The lawyer subject to paragraph (a) is screened from any participation in the matter and is apportioned no part of the fee therefrom; and

(2) written notice is given with reasonable promptness to the appropriate government agency.

(c) Except as law may otherwise expressly permit, a lawyer having information that the lawyer knows or should know is confidential government information about a person or other legal entity acquired when the lawyer was a public officer or employee may not represent a private client whose interests are adverse to that person or legal entity.

(d) After learning that a lawyer in the firm is subject to paragraph (c) with respect to a particular matter, a firm may undertake or continue representation in that matter only if that disqualified lawyer is screened from any participation in the matter and is apportioned no part of the fee therefrom.

(e) Except as law may otherwise expressly permit, a lawyer serving as a public officer or employee shall not:

(1) Participate in a matter involving a private client when the lawyer had represented that client in the same matter while in private practice or nongovernmental employment, unless under applicable law no one is, or by lawful delegation may be, authorized to act in the lawyers stead in the matter; or

(2) Negotiate for private employment with any person who is involved as a party or as attorney for a party in a matter in which the lawyer is participating personally and substantially.

(f) As used in this rule, the term matter does not include regulation-making or rule-making proceedings or assignments, but includes:

(1) Any adjudicatory proceeding, application, request for a ruling or other determination, contract, claim, controversy, investigation, charge accusation, arrest or other similar, particular transaction involving a specific party or parties; and

(2) any other action or transaction covered by the conflict of interest rules of the appropriate government agency.

(g) As used in this rule, the term confidential government information means information which has been obtained under governmental authority and which, at the time this rule is applied, the government is prohibited by law from disclosing to the public or has a legal privilege not to disclose, and which is not otherwise available to the public.

(h) As used in this Rule, Private Client includes not only a private party but also a governmental agency if the lawyer is not a public officer or employee of that agency.

(i) A lawyer who serves as a public officer or employee of one body politic after having served as a public officer of another body politic shall comply with paragraphs (a) and (c) as if the second body politic were a private client and with paragraph (e) as if the first body politic were a private client.

Comment:

1. This Rule prevents a lawyer from exploiting public office for the advantage of a private client.

2. A lawyer licensed or specially admitted in Texas and representing a government agency is subject to the Texas Disciplinary Rules of Professional Conduct, including the prohibition against representing adverse interests stated in Rule 1.06 and the protection afforded former clients in Rule 1.09. In addition, such a lawyer is subject to this Rule and to statutes and government regulations regarding conflict of interest. Such statutes and regulations may circumscribe the extent to which the government agency may give consent under paragraph (a) of this Rule.

3. Where a public agency and a private client are represented in succession by a lawyer, the risk exists that power or discretion vested in public authority might be used for the special benefit of the private client. A lawyer should not be in a position where benefit to a private client might affect performance of the lawyers professional function on behalf of public authority. Also, unfair advantage could accrue to the private client by reason of access to confidential government information about the clients adversary obtainable only through the lawyers government service. However, the rules governing lawyers presently or formerly employed by a government agency should not be so restrictive as to inhibit transfer of employment to and from the government. The government has a legitimate need to attract qualified lawyers as well as to maintain high ethical standards. The provisions for screening and waiver are necessary to avoid imposing too severe a deterrent against entering public service. Although screening is not defined, the screening provisions contemplate that the screened lawyer has not furnished and will not furnish other lawyers with information relating to the matter, will not have access to the files pertaining to the matter, and will not participate in any way as a lawyer or adviser in the matter.

4. When the client of a lawyer in private practice is an agency of one government, that agency is a private client for purposes of this Rule. See paragraph (h). If the lawyer thereafter becomes an officer or employee of an agency of another government, as when a lawyer represents a city and subsequently is employed by a federal agency, the lawyer is subject to paragraph (e). A lawyer who has been a public officer or employee of one body politic and who becomes a public officer or employee of another body politic is subject to paragraphs (a), (c) and (e). See paragraph (i). Thus, paragraph (i) protects a governmental agency without regard to whether the lawyer was or becomes a private practitioner or a public officer or employee.

5. Paragraphs (b)(1) and (d)(1) do not prohibit a lawyer from receiving a salary or partnership share established by prior independent agreement. They prohibit directly relating the attorneys compensation to the fee in the matter in which the lawyer is disqualified.

6. Paragraph (b)(2) does not require that a lawyer give notice to the governmental agency at a time when premature disclosure would injure the client; a requirement for premature disclosure might preclude engagement of the lawyer. Such notice is, however, required to be given as soon as practicable in order that the government agency or affected person will have a reasonable opportunity to ascertain compliance with Rule 1.10 and to take appropriate action if necessary.

7. Paragraph (c) operates only when the lawyer in question has actual as opposed to imputed knowledge of the confidential government information.

8. Paragraphs (a) and (e) do not prohibit a lawyer from jointly representing a private party and a government agency when doing so is permitted by Rule 1.06 and is not otherwise prohibited by law.

9. Paragraph (e)(1) does not disqualify other lawyers in the agency with which the lawyer in question has become associated. Although the rule does not require that the lawyer in question be screened from

participation in the matter, the sound practice would be to screen the lawyer to the extent feasible. In any event, the lawyer in question must comply with Rule 1.05.

10. As used in paragraph (i), one body politic refers to one unit or level of government such as the federal government, a state government, a county, a city or a precinct. The term does not refer to different agencies within the same body politic or unit of government.