

SIFMA Compliance and Legal Division

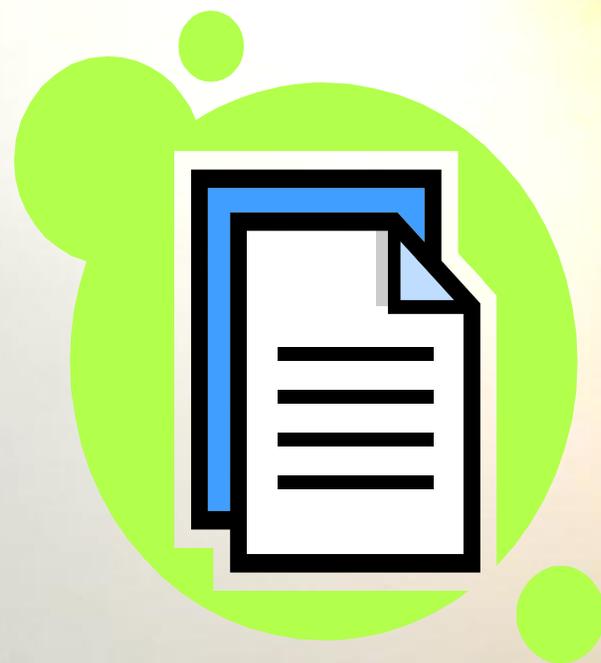
- Handling a Regulatory Investigation II

– May 7, 2010



Regulatory Investigations

- Company counsel for Gaylord Securities receives SEC request for voluntary, but extensive, production, including emails between a Gaylord registered representative, Bob Braverman, and Gaylord client Alpha Hedge Fund, as well as trade data for Alpha
- Preliminary review of Alpha's trading by company counsel suggests Alpha is "prescient" about developing deals



Regulatory Investigations

- Braverman visits company counsel and tells her “confidentially” about Alpha’s research capabilities and trading decisions
- Braverman admits he has recommended Alpha’s positions to other Gaylord clients



Regulatory Investigations

- Braverman assures company counsel not to worry -- he's called his clients and they "know what to say" if the SEC contacts them



Regulatory Investigations

- Another Gaylord representative, Chip Charles, confesses to counsel that he too has copied Alpha's trading
- He knows that a Gaylord banker [unknown] is tipping Alpha about imminent deals
- He plans to tell all of this to the SEC in the morning



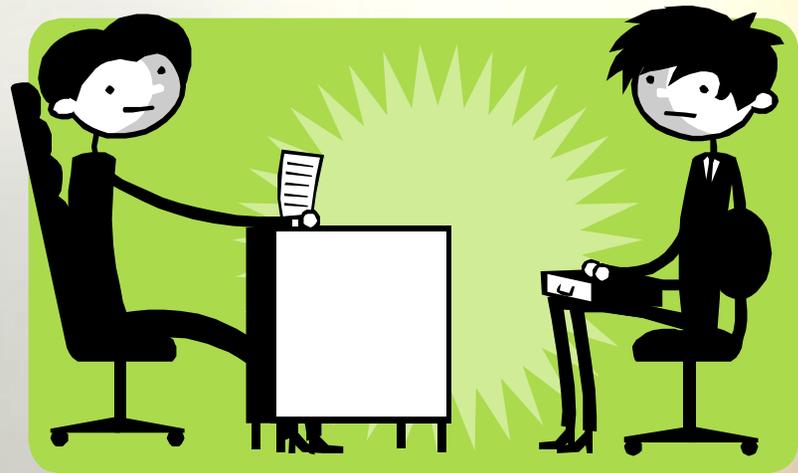
Regulatory Investigations

- Should company counsel launch an investigation, or just continue to gather facts in response to the SEC request?



Regulatory Investigations

- The SEC now requests a list of all Gaylord investment bankers with knowledge of certain recent deals
- The Staff will want testimony from most if not all of these employees
- Counsel commences interviews, and employees ask, “Who’s my lawyer?”



Regulatory Investigations

- In the midst of all this, Gaylord's IT department finds a "glitch" in the email retention system
- Emails requested by the SEC may not have been preserved
- The problem may be larger than the current inquiry and production
- Counsel also learns that responsive documents are with Gaylord's English affiliate



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Regulatory Investigations

- Next, company counsel receives a call from the New York Attorney General's office
- Chip Charles has blown the whistle and has been talking with NYAG
- NYAG has launched its own investigation



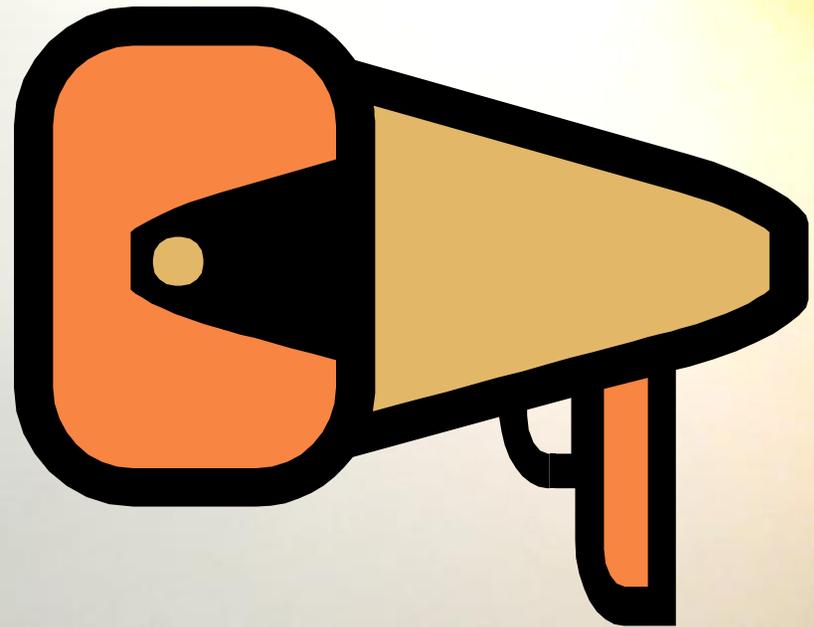
Regulatory Investigations

- The Wall Street Journal gets wind of the NYAG investigation and wants the Gaylord's side of the story



Regulatory Investigations

- Weeks/months later, Gaylord receives a Wells notice from the SEC
- Counsel ponders whether and what disclosure is necessary



Regulatory Investigations

- Gaylord completes its Wells submission
- Counsel requests, in writing and orally, a meeting/discussion or notice of the Commission's decision before any action is taken
- The Staff says the SEC cannot assure that notice will be given



Regulatory Investigations

- Chip Charles, the whistleblower, also receives a Wells notice
- His counsel approaches the SEC to work out a settlement, and to seek credit for Charles' cooperation

