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IN THE UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF ILLINOIS, EASTERN DISTRICT

DAVID GROCHOCINSKI, not individually,  
but solely in his capacity as the Chapter 7  
Trustee for the bankruptcy estate of  
CMGT, INC.

Plaintiff,

v.

MAYER BROWN ROWE & MAW LLP,  
RONALD B. GIVEN, and CHARLES W.  
TRAUTNER,

Defendants.

No. 06 C 5486

Judge Virginia M. Kendall

FILED  
6-10-2010  
JUN 10 2010 TG

MICHAEL W. DOBBINS  
CLERK, U.S. DISTRICT COURT

SPEHAR'S REPLY IN SUPPORT OF HIS MOTION TO INTERVENE

The 7<sup>th</sup> Circuit rejected Defendants' lead argument against allowing me to intervene two weeks before Defendants submitted their Response to this Court. On May 13, 2010, the Court of Appeals stayed plaintiff David Grochocinski's ("Grochocinski") appeal, "pending resolution by the district court of [Spehar's] motion to intervene." (Ex 1)

Asserting, as a lead and "dispositive" argument a position that the 7<sup>th</sup> Circuit has expressly rejected takes moxy.<sup>1</sup> It suggests that I not only should be allowed to intervene, but that I have a right to do so. It also suggests that, although Defendants' opposition is couched in terms of prejudice and principle, their concerns are practical and parochial.

<sup>1</sup> Defendants made these same arguments in their Response in Opposition to Plaintiff-Appellants Motion to Stay Appeal (Ex. 2)

They fear that allowing me to intervene will provide an opportunity to correct three misconceptions that Defendants have employed throughout this case.

The first misconception is that I am an evil carpetbagger and gadfly (or “puppet-master”) who greedily and single-handedly sank CMGT, Inc. (“CMGT”). The reality is that shareholder ignorance made me an easy fall guy. In a treacherously difficult venture-capital market (Ex 4, at 20-24), I procured two funding offers (Sealaska and the Washoe)<sup>2</sup> that would allow shareholders to retain 49% of CMGT and make CMGT’s creditors whole. Defendants not only concealed these offers from CMGT shareholders, they effectively killed them in favor of the “Newco” offer that left shareholders with only a 20% stake and paid creditors nothing,<sup>3</sup> but paid Defendant’s fees. Then, per Defendant Ron Given’s (“Given”) August 22, 2003 and September 14, 2003 memos, Defendants, while still formally representing CMGT and ostensibly pursuing that Newco offer in CMGT’s behalf, secretly devised a plan that would effectively strip CMGT’s operating business and assets from its shareholders and transfer them to Newco and select CMGT insiders “without making any payment to CMGT whatsoever,” but, again, pay Defendants’ fees. (Supp. at 21) Defendants worked not for CMGT, but for the highest bidder.

The second misconception is that I conned a seasoned California trial judge into entering a fantastic judgment against CMGT. The reality is that I presented the California trial Court with copious documentation necessary to prove-up Spehar Capital

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<sup>2</sup> Defendants incorporate my April 28, 2010 Motion to Alter or Amend (“Motion to Amend”) in their Response by reference, as one of the “Post-Judgment Motions” (Rsps. at 1, 3 and elsewhere). I also incorporate herein the Motion to Amend as well as my June 10, 2010 Supplement thereto contemporaneously filed with this Reply (“Supplement”).

Importantly, CMGT was not a startup. Thus, these two offers were for development/expansion capital, not startup capital. (Mo. to Amend at ¶1; FN 11; esp. Ex. 2 – Sealaska Due Diligence Report)

<sup>3</sup> Supp. at 19; SC’s California First Amd. Cmplt. at 29 and California Jdgmt. at 5 and 8.

LLC's ("SC") damages and other facts, and that SC's damages were based on CMGT's own data and projections. In this context, it was next to impossible for the trial judge to have been misled by an isolated remark about CMGT's present value when the complete record shows that the court clearly understood the facts and the basis for entering its order. (Mo. to Amend at ppg. 13-25).

The third misconception is that this malpractice action is but the continuation of an elaborate plan I concocted "from the get go" to defraud the entire judicial system so as to eventually collect SC's 2004 California judgment from Defendants' "deep pockets." The reality is that Defendants own actions have been infused with conflict since the very beginning of SC's contract dispute with CMGT ("Dispute"), and throughout SC's resultant California litigation v CMGT ("California Action.") and this malpractice litigation. From the beginning, Defendants planned to blame me, and they employ that strategy to this day. (Supp. at Chronology, esp. 21 and 31).

Naturally, Defendants prefer to keep me as the fall guy to deflect attention from themselves. I prefer the Court to at least have a correct perception of me and my actions, so that I can maintain my CFA certification and earn a living. I hope that this Court would prefer to get this perception and the facts on which it is based right, rather than (as Defendants prefer) to get this case over with. And CMGT's now informed shareholders and creditors would prefer this Court give their interests at least a fair hearing at trial. (Ex. 5, May 4, 2010, Limited Ratification of Ron and Linda Holman).

Having dispensed with Defendants "dispositive" jurisdictional argument, I will now show that I should be allowed to intervene either by right or by permission.

## ARGUMENT

### I. Spehar's Intervention Motion was timely.

The timeliness of a motion to intervene is committed to a District Court's sound discretion. *Shea v. Angulo*, 19 F.3d 343, 349 (7<sup>th</sup> Cir. 1994). Timeliness is determined by reference to "totality of the circumstances," not to just the mere passage of time. *Id.* at 348-9; *Nissei Sangyo America, Ltd. v. U.S.*, 31 F.3d 435, 439 (7<sup>th</sup> Cir. 1994). An application for intervention may be accepted even if filed after judgment. *U.S. v. Griffin*, 782 F.2d 1393, 1399 (7<sup>th</sup> Cir. 1986). The most important consideration is whether delay prejudices existing parties to a case. *Nissei* at 439.

Here, there is minimal prejudice to the named parties by delay. Grochocinski's appeal has, at his request, been stayed pending this intervention. And Defendants need not relitigate this case from scratch. This is not the "11<sup>th</sup> hour" in this case. It has not even been tried. Defendants obtained summary judgment, and it is possible for that judgment to remain intact while correcting the aspects of it that the Court might not have appreciated would adversely and severely affect me as an individual. If the judgment is overturned on appeal or otherwise, then Defendants will have the same task before them – defending themselves – whether I intervene or not.

Moreover, although I was aware of this litigation, I am not the mythical "puppet-master" that Defendants have conveniently portrayed. At the time I first notified the CFA Institute of the "unclean hands" allegations in July 2008 (Ex. 6 at 1-2), I was involved in this malpractice action because of a payment dispute SC had with CMGT. I could not then reasonably anticipate that the parties' legal argument over the consistency of SC's judgment with the Trustee's malpractice claim would result in a personally

scathing opinion that might leave me permanently jobless. This Court's finding that I defrauded a California Court is substantively different and much more consequential than a payment dispute. No adverse affect to my personal interests could have been reasonably known or anticipated until this Court determined the "unclean hands" issue in its Opinion.

Also, unlike in other intervention cases, the Court's findings involving me are not a subsidiary matter or related to specific testimony. They are central and critical to this Court's judgment. The Court made these findings without the benefit of a complete record of the California Action, such as the extensive Prove Up exhibits that I presented (Mo. to Amend at ¶¶32-35<sup>4</sup> and Ex. 4) or the factual findings that the California Court made (Mo. to Amend at ¶¶26, 28, 30 and 35 (pg. 24)). And it made this decision in an environment in which neither the interests of CMGT's bankruptcy estate ("Estate") (obtaining a recovery from Defendants and obtaining more Estate financing from SC) nor its contingency-fee special counsel Joyce (obtaining a recovery most efficiently) aligned with my personal interests.

Nor (as the omitted evidence shows) did trustee Grochocinski or special counsel Joyce adequately represent my personal interests. In fact, Defendants portrayed me as a bogeyman; Grochocinski viewed me as an adversary; and Grochocinski and Joyce's pleadings have treated me as, at best, an irrelevant embarrassment. Meanwhile, Grochocinski opposed me not over an independent and unrelated matter, but in trying to end-run a central feature of the Estate: the bankruptcy-court order that allowed SC to fund the Estate and determined the Estate's potential recovery. The divergence of Grochocinski's interests with mine in the Estate is clear and of record. (March 31, 2010

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<sup>4</sup> Note: ¶¶34 and 35 (on pages 19-25) mistakenly repeat numbers 32 and 33.

Opinion (“2010 Opinion”) at 31) Similarly, this Court’s finding with respect my intent and conduct also show that the existing parties did not adequately represent my interests. The prejudice to me is palpable; the circumstances truly unique. In the totality of these circumstances, my motion to intervene was timely.

Exhibit 4 is the May 20, 2010 Affidavit of Steven Preiss (“Preiss”), a CFA and recent Managing Director at two of the world’s largest financial institutions (Nomura Securities, International and Bank of America),<sup>5</sup> directly responsible for hiring investment securities industry professionals. According to Preiss, it was only when Defendants “meaningless” allegations became “factual findings” of this Court in the 2010 Opinion that they first (a) materially harmed my professional reputation, (b) devalued and assured the revocation of my CFA credential, and (c) precluded my employment in the securities trading and investment management industries (my historic profession). The Preiss Affidavit (at 29-46) states:

“[A]s unproven allegations of an opposing litigant such as Mayer Brown, the [2010] Opinion’s statements and inferences about Spehar are meaningless ... but as factual findings, statements and inferences of a federal district court they are ethically relevant and extremely harmful ... and ... would preclude Spehar’s employment in [the securities trading and money management] industries. ... [T]he [2010] Opinion’s...factual findings, statements and inferences about Spehar...must be reported to the CFA Institute [and] this will result in the loss of Spehar’s CFA charter [and] ... investment securities and money management firms would likely not hire such a candidate (Spehar), particularly in the current competitive environment. (*Emphasis added.*)

Preiss’ statement is independently confirmed by Exhibit 6, my correspondence with the CFA Institute from 2008 through 2010 regarding the unclean hands issue. My July 2008 correspondence with the CFA Institute shows that when first informed of the

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<sup>5</sup> Nomura Securities International is the international arm of the then world’s largest securities firm. Bank of America was/is one of the world’s largest banks with huge securities trading and investment operations.

unclean hands **allegations** on July 21, 2008, the CFA Institute merely instructed me on July 24, 2008:

“I do not believe this matter requires disclosure on your annual Professional Conduct Statement. However, once the “unclean hands” issue is determined..., please provide me a follow up email regarding the status and issues remaining in the case.”

(Ex. 6 at 1, *Emphasis added.*)

Thus I could not anticipate that my CFA Interest would be impaired until *after* the 2010 Opinion’s “determinations” were entered. When, as instructed, I then disclosed the unclean hands issue in my May 13, 2010 annual Professional Conduct Statement (Ex. 6 at 3), the CFA Institute immediately opened a formal inquiry into the matter on May 17, 2010:

“The Professional Conduct Program is in receipt of your 13 May 2010 e-mail in which you provided information regarding a matter you previously disclosed in July 2008. After reviewing the information in your 21 July 2008 e-mail, it was determined that an inquiry into the matter should be opened. It is the policy of the Professional Conduct Program to investigate all such matters to determine whether there have been any violations of the *Code and Standards or Bylaws.*”

(Ex. 6 at 5, CFA Institute May 17, 2010 letter to Spehar)

As Preiss avers after reviewing the 2010 Opinion’s findings, “this will result in the loss of Spehar’s CFA charter ... [and] investment securities and money management firms would likely not hire...Spehar.” (Ex. 4 at 25-27, 33, 43 and 46)

## **II. Spehar has a right to intervene.**

I have already shown that, properly considered, my motion to intervene was timely, and that no existing party adequately represents my interests. Although Defendants suggest that my burden in establishing inadequate representation is great, an intervenor’s “burden of making that showing should be treated as minimal.” *Ligas ex rel.*

*Foster v. Maram*, 478 F.3d 771, 774 (7<sup>th</sup> Cir. 2007) (quoting *Trbovich v. United Mine Workers of Am.*, 404 U.S. 528, 538 n. 10 (1972)). An intervenor need only show that representation “may be” inadequate. *Id.* As noted above, my litigation with Grochocinski qualifies.<sup>6</sup>

The remaining factors that I must show to intervene by right are an interest related to the property or transaction that underlies this action, and the potential impairment of my ability to protect that interest. *E.g. Id.* at 773; *Aurora Loan Services, Inc. v. Craddieth*, 442 F.3d 1018, 1022 (7<sup>th</sup> Cir. 2006).

Although Defendants assert that various cases show that I lack an interest sufficient to intervene as of right, the determination of whether an interest merits intervention is so fact-specific that “comparison to other cases [is] of limited value.” *Security Ins. Co. of Hartford v. Schipporeit, Inc.*, 69 F.3d 1377, 1381 (7<sup>th</sup> Cir. 1995). The distinguishing facts in this case are that: (1) my interests are inextricably intertwined with and central to the court’s judgment, rather than a tangential issue that involves the credibility of a witness or an attorney’s actions; (2) my CFA certificate is a valuable and specific property interest, not a generic reputational interest; (3) my interest in the litigation is not just a derivative economic interest -- acting on behalf of the Estate’s other creditors, who were then unaware that Defendants’ interests substantially conflicted with their own, I funded the Estate; and (4) the Court has found that I was a fraud-inducing “puppet-master.” These factors give me an interest in this case “at some fundamental level” as required to have a right to intervene. *Sokaogon Chippewa Community v. Babbitt*, 214 F.3d 941, 946 (7<sup>th</sup> Cir. 2000).

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<sup>6</sup> The District Court (Gettleman, J.) found that Grochocinski’s attempt to overturn the Bankruptcy Court’s funding order over a year after it entered was untimely and facially contradicted an unambiguous rule of civil procedure. (2010 Op. at 31)



Finally, as a practical matter, my ability to retain my CFA certificate will be impaired. The Court will have effectively (not as a derivative consequence of a proceeding, but as its central feature) convicted me of fraud, which will cost me my CFA certificate and make me unemployable. (*See below*) Given the inherent respect and authority that a federal court commands, and the tone of the Court's opinion, it will be virtually impossible for me to refute the Court's conclusions.

To further explain, the Intervention Motion claims and seeks to protect two separate and distinct interests (albeit interests that impact one another): my personal ability to earn a living ("Economic Interest") and my CFA credential ("CFA Interest").

#### **The Economic Interest**

SC is the creditor of the Estate, not Spehar (the individual). Here, I seek to intervene as an individual, not SC, and the Intervention Motion does not seek to protect SC's recovery as a creditor of the Estate, as Defendants claim.

The Economic Interest that the Intervention Motion seeks to protect is my "personal ability to earn a living" (Mo. to Int. at 2) as an individual professional in the securities trading and investment management industries. As Preiss avers (Ex 4 at 7-13)<sup>7</sup> and my professional resume shows (Ex. 3), I made my living in these industries for twenty-five years before helping CMGT raise \$3 million expansion funding from 2001 to 2003 (Ex. 4 at 20-24). With this malpractice case dismissed and SC's recovery from the Estate gone, I must and will return to these industries to make a living, if I can. But the

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<sup>7</sup> Throughout much of his professional career, Preiss directly worked with or traded with Spehar.

2010 Opinion now precludes that possibility (Ex. 4 at 14-19 and 25-32) and will also cause the loss of my CFA certificate (*Id.* at 33-46).<sup>8</sup>

It is worth repeating that the Economic Interest I seek to protect is entirely independent from any recovery that SC may or may not obtain from this malpractice action.

### **The CFA Interest**

On a stand-alone basis, my CFA charter is a separate legally cognizable property interest with a significant value entirely independent of its material effect on my ability to make a living. *Murtha v. Murtha*, 264 A.D.2d 552, (CFA certificate had value of over \$200,000 for purposes of marital estate). Thus, as a matter of right, the Intervention Motion also independently seeks to protect the CFA Interest.

### **Obtaining the CFA Interest**

My CFA charter was very difficult and very expensive (in both time and money) to obtain. Preiss, a CFA himself, avers that the CFA credential is an internationally recognized qualification for finance and investment professionals, ranked as the gold standard among investment analysis designations. CFA candidates must complete a series of three rigorous six-hour academic exams, and fees for all three exams range from \$710 to \$955 plus an additional \$400 to \$480 for program enrollment for new members. Only 8.5% of candidates pass all three exams and become CFAs, and a bachelor's degree

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<sup>8</sup> "The Opinion contains very troubling ethical findings, statements and inferences with regards to Spehar. ... The Opinion's...factual findings, statements and inferences about Spehar are ethically relevant and must be reported to the CFA Institute. ... [T]his will result in the loss of Spehar's CFA charter." (Ex. 4 at 26 and 42-43)

and 48 months of qualified, professional work experience are also required. There are currently less than 100,000 CFA members worldwide. (Ex. 4 at 34-38)<sup>9</sup>

#### Maintaining The CFA Interest

Once obtained, the CFA charter is also very expensive (in both time and money) to maintain. The CFA Institute's annual membership dues are currently \$275, which is in addition to annual dues a CFA pays to his/her local chapter. Additionally, the CFA Institute's annual Continuing Education Program goal takes weeks of independent study and/or expensive seminar attendance to meet. (*Id.* at 5-6) I have been a dues-paying CFA continuously since 1993 (Ex 4 at 33 and Ex. 5), and have also continuously performed the annual CFA education requirement. (Ex. 6 at 7-8) Thus I have an additional sunk investment (in both time and money) in the CFA Interest in the significant amount of seventeen years worth of these annual maintenance costs.

### **III. Spehar should be allowed to permissively intervene.**

Like the timeliness of a motion to intervene, a decision to grant permission to intervene is committed to the trial court's sound discretion. *S.E.C. v. Homa*, 17 *Fed.Appx.* 441, 445 (7<sup>th</sup> Cir. 2001). Courts should not rigidly construe intervention requirements. *Jessup v. Luther*, 227 F.3d 993, 998 (7<sup>th</sup> Cir. 2000). A District Court can allow an intervenor to participate in a lawsuit if the Court has "a reasonable basis in judicial experience" to do so. *Korczak v. Sedeman*, 427 F.3d 419, 422 (7<sup>th</sup> Cir. 2005). Some courts have stated the minimal requirement to permissively intervene thus: an intervenor must only demonstrate a common question of law or fact and independent jurisdiction. *Security Ins. Co. of Hartford v. Schipporeit, Inc.*, 69 F.3d 1377, 1381 (7<sup>th</sup>

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<sup>9</sup> See also Exs. 7 and 8.

Cir. 1995). Others have more permissively stated that an intervenor does not need to have a particular interest, but need only have a claim or defense in common with a claim or defense in the suit. *Solid Waste Agency of Northern Cook County v. U.S. Army Corps of Engineers*, 101 F.3d 503, 509 (7<sup>th</sup> Cir. 1996). (Posner, J.) (reversing denial of permissive intervention).

Here, as I have noted, the factual and legal conclusions that were critical to the 2010 Opinion are the same facts that threaten my Economic Interest and my CFA Interest. My injury is inextricably intertwined with the Court's judgment. My defense to Defendants unclean hands allegations is the same as Grochocinski's: there was no fraud. Further, this Court has jurisdiction over property interests, and a CFA certificate is a property interest that I have standing to protect. *Murtha v. Murtha*, 264 A.D.2d 552, (CFA certificate had value of over \$200,000 for purposes of marital estate).

Beyond this, there are practical reasons for this Court to allow me to, as Defendants put it, come out from behind my curtain. Since I have (without my input) been judged to be Oz, the Court, in its judicial experience, might find it more illuminating to hear directly from Oz, rather than the caricature that Defendants have strategically constructed and skillfully employed. *See Korczak*, 427 F.3d at 422 (intervention can denote situation in which intervenor can make "resolution of dispute...more accurate.").

For the Court's reference, a copy of my resume is attached as Ex. 3.

#### **IV. Prejudice to Spehar and "special circumstances".**

Spehar has not gotten his day in court.

As noted above, Spehar (the individual) is not SC (the Estate creditor). Therefore, the Intervention Motion is not the attempted “second bite at the apple” that Defendants portray. As also noted above, Grochocinski and Joyce’s inadequate representation of me has resulted in significant, albeit unintended, harm to my personal livelihood and CFA credential that will persist, if this Court does not allow me to correct it.

Spehar and CMGT are prejudiced, not Defendants.

Naturally, Defendants misapply and understate the prejudice here. The “costly and time consuming” and “wasteful” Dispute and litigation at issue actually began in August 2003, and it was caused by Defendants’ malpractice and fraud, which continues unabated to this day. Thus, it is CMGT’s misinformed shareholders and creditors and SC/Spehar who have now endured almost seven years of prejudice. In reality, Defendants are the puppet-masters who imposed the wasteful lawsuit on CMGT, me and this Court in the first place, and indeed there would be no justice in letting Defendants remain behind the curtain.

The Motion to Amend and Supplement show that Defendants colluded with CMGT management to con unsuspecting shareholders (some of whom, like Ron and Linda Holman, were also substantial creditors) into doing a conflicted Newco deal that benefited Defendants, left shareholders with a lesser deal, left creditors holding the bag, and blamed Spehar.

“Interestingly enough, [Spehar] may have actually improved the deal from Newco’s perspective...you could walk away with the software and, most importantly, Lou Franco without making any payment to CMGT whatsoever.”

(Defendants’ Aug. 22, 2003 memo to Newco, Mo. to Amend at ¶¶11-12; Supp. at 21 and 31)

And now Defendants seek to blame shareholders for their own non-appearance in shareholders behalf.

“CMGT would have won the case at any time if it had just defended itself. In fact, if CMGT had defended itself, it would have won the preliminary injunction hearing and would have closed the Newco Deal.”

(Def, Feb. 7, 2007 Reply at 19; Mo. to Amend at 28, *Emphasis added.*)

### CONCLUSION

To protect my ability to earn a living and my CFA credential, I pray this Court grant the Intervention Motion so that I might have an opportunity to set the record straight and correct its erroneous and harmful findings about me. I believe I am entitled to intervene by right, but will be grateful to intervene by permission.

I again respectfully submit that equity and due process suggest this Court give me an opportunity to answer the injurious personal attacks in its 2010 Opinion before those erroneous findings become final in the public record.

This Court will not regret that decision.

Respectfully submitted,  
Gerry Spehar, CFA

By 

Gerry Spehar, (Acting Pro Se)

1625 Grandview Avenue

Glendale, CA 91201

818-247-5558

Fax: 818-247-0616

**CERTIFICATE OF SERVICE**

I, Gerry Spehar, certify that I caused a copy of the attached 1) *Reply in Support of Motion to Intervene and (2) Supplement to Motion to Alter or Amend* to be served on the parties listed below, by Chicago Messenger Service, on this 10<sup>th</sup> day of June, 2010.

PLAINTIFF

David Edward Morgans  
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Arthur W. Aufmann  
Robert D. Carroll  
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DEFENDANT

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Stephen Novack  
Mitchell L. Marinello  
Steven J. Ciszewski  
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Chicago, all 60606

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 1**



UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Everett McKinley Dirksen United States Courthouse  
Room 2722 - 219 S. Dearborn Street  
Chicago, Illinois 60604



Office of the Clerk  
Phone: (312) 435-5850  
www.ca7.uscourts.gov

ORDER

May 13, 2010

BEFORE

DIANE S. SYKES, *Circuit Judge*

No.: 10-2057	DAVID E. GROCHOCINSKI, not individually, but solely in his capacity as the Chapter 7 Trustee for the bankruptcy estate of CMGT, INC., Plaintiff - Appellant  v.  MAYER BROWN ROWE & MAW, LLP and RONALD B. GIVEN, Defendants - Appellees
<b>Originating Case Information:</b>	
District Court No: 1:06-cv-05486 Northern District of Illinois, Eastern Division District Judge Virginia M. Kendall	

Upon consideration of the **APPELLANT'S MOTION TO STAY APPEAL**, filed on May 10, 2010, by counsel for the appellant,

**IT IS ORDERED** that the motion is **GRANTED**. Proceedings in this appeal shall be held in abeyance pending resolution by the district court of the pending motion to intervene.

Appellant is **ORDERED** to file a status report with this court by July 9, 2010 or within 10 days of the district court's resolution of the motion to intervene.

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 2**

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**IN THE UNITED STATES COURT OF APPEALS  
FOR THE SEVENTH CIRCUIT**

U.S.C.A. - 7th Circuit  
RECEIVED LMB

MAY 13 2010

GINO J. AGNELLO  
CLERK

DAVID GROCHOCINSKI, not individually )  
but solely in his capacity as the Chapter 7 )  
Trustee for the bankruptcy estate of )  
CMGT, INC., )

Plaintiff-Appellant, )

No. 10-2057

v. )

MAYER BROWN ROWE & MAW LLP and )  
RONALD B. GIVEN, )

Defendants-Appellees. )

U.S.C.A. - 7th Circuit  
FILED  
MAY 13 2010  
GINO J. AGNELLO  
CLERK

**DEFENDANTS-APPELLEES' RESPONSE IN OPPOSITION  
TO PLAINTIFF-APPELLANT'S MOTION TO STAY APPEAL**

Defendants-Appellees Mayer Brown LLP and Ronald B. Given ("Defendants"), by their attorneys, Novack and Macey LLP, submit this Response in Opposition to Plaintiff-Appellant David Grochocinski's ("Plaintiff") Motion to Stay Appeal (the "Stay Motion").

**I.**

**SUMMARY**

Plaintiff's sole basis for the Stay Motion is the pendency of two post-judgment motions (the "Post-Judgment Motions") filed in the district court by a non-party, R. Gerard Spehar ("Spehar"): (1) Spehar's motion to intervene for the purpose of challenging the judgment (the "Judgment") that is the subject of this appeal (the "Intervention Motion"); and (2) Spehar's Rule 59(e) motion to alter the Judgment (the "Rule 59(e) Motion"). As will be explained below, because the Rule 59(e) Motion was filed by a non-party, it did not suspend the effectiveness of the notice of appeal herein (the "Notice of Appeal"). Thus, once the Notice of Appeal was filed, the

district court lost jurisdiction over the Post-Judgment Motions. That is because the Post-Judgment Motions are not merely “ancillary” to the issues in this appeal. On the contrary, the Post-Judgment Motions seek to attack the very Judgment that is the subject of this appeal.

As a result, because the district court has no jurisdiction over -- or to rule upon -- the Post-Judgment Motions, there is no reason to stay this appeal to await a non-existent ruling. Accordingly, the Stay Motion should be denied.

## II.

### PROCEDURAL BACKGROUND

On March 31, 2010, the district court granted Defendants’ motion for summary judgment and entered the final Judgment. On April 28, 2010 -- the deadline for the parties to file any motions to alter or amend the Judgment under Federal Rule of Civil Procedure 59(e) -- Spehar filed the Intervention Motion, seeking leave to intervene to present his Rule 59(e) Motion. At the same time, Spehar filed the Rule 59(e) Motion for which he sought intervention to present. The next day, on April 29, 2010, Plaintiff filed the Notice of Appeal. Now, Plaintiff has filed his Stay Motion, seeking to stay this appeal pending resolution of the Post-Judgment Motions.

## III.

### ARGUMENT

As will now be shown, this Court should deny the Stay Motion because the district court has no jurisdiction to rule on the Post-Judgment Motions.

#### A. A Notice Of Appeal Divests The District Court Of Jurisdiction Over All “Non-Ancillary” Matters

An effective notice of appeal divests the district court of jurisdiction over all matters except for “discreet” matters “ancillary” to the issues on appeal. As this Court has explained it:

As a general matter, a notice of appeal “divests the district court of its control over those aspects of the case involved in the appeal.” Under this rule, the district court retains jurisdiction to act only if the order being appealed or the proceeding before the district court is a discrete matter ancillary to the issues under consideration in the other court.

May v. Sheahan, 226 F.3d 876, 879 (7th Cir. 2000) (citations omitted) quoting Griggs v. Provident Consumer Discount Co., 459 U.S. 56, 58 (1982).

**B. The Post-Judgment Motions Are Not Merely “Ancillary Matters”**

The Post-Judgment Motions are not merely discreet matters that are ancillary to this appeal. On the contrary, they are precisely the type of motions as to which a district court loses jurisdiction upon the filing of a notice of appeal.

The Rule 59(e) Motion attacks the very Judgment that is the subject of this appeal, asking the district court to change its mind and alter or amend it. In furtherance thereof, the Intervention Motion asks the district court to allow Spehar to intervene precisely so that he may pursue that very Rule 59(e) Motion. Indeed, the Stay Motion contends that “the issues presented in this appeal and the basis for the appeal could be significantly altered or even eliminated” based on the district court’s rulings on the Post-Judgment Motions. (Stay Motion, ¶5.) Stated another way, the Post-Judgment Motions directly concern the “aspects of the case involved in the appeal.” May, 226 F.3d at 879.

**C. Non-Party Spehar’s Rule 59(e) Motion Did Not Suspend The Effectiveness Of The Notice Of Appeal**

Any suggestion that Spehar’s Rule 59(e) Motion changes the foregoing by suspending the effectiveness of the Notice of Appeal would fail. That is because, under Federal Rule of Appellate Procedure 4(a)(4)(B)(i), a Rule 59(e) motion suspends the effectiveness of a notice of appeal only

if it is timely filed by a party to the case. Fed. R. App. Pro. 4(a)(4)(A)(iv) (“If a party timely files [a motion] . . . to alter or amend the judgment under Rule 59.”) (emphasis added).

Here, no party filed a Rule 59(e) motion at any time, let alone within 28 days after the entry of Judgment. The Rule 59(e) Motion that was filed was filed by a non-party (Spehar), so it was ineffective to suspend the Notice of Appeal. Indeed, in an identical factual and procedural scenario, the Southern District of New York found that it had no jurisdiction to consider non-parties’ motions to intervene and to alter or amend the judgment where, as here, those motions were filed before a party to the case filed the notice of appeal. Katz v. Berisford Int’l PLC, No. 96 CV 8695 (JGK), 2000 WL 1760965, at \*1-\*2 (S.D.N.Y. Nov. 30, 2000). The relevant facts in Katz are identical to those of our case. In particular, in Katz, after final judgment was entered, two non-parties filed a motion to intervene and a motion to alter or amend the final judgment and, thereafter, the defendant filed a notice of appeal. Under those facts, the court held that it had no jurisdiction to decide the non-parties’ motion to intervene, stating that “[i]t is well-established that the filing of a notice of appeal divests the district court of jurisdiction and transfers it to the Court of Appeals.” Id.

Moreover, the Katz court held that the non-parties’ motion to alter or amend judgment did not suspend the effectiveness of defendant’s notice of appeal under Appellate Rule 4. The court explained:

The Intervenor’s rely on Fed. R. App. P. 4(a)(4)(A)(iv) and 4(a)(4)(B)(i), which provide that if a “party” files a motion to alter or amend a judgment pursuant to Fed. R. Civ. P. 59 a subsequently filed notice of appeal only becomes effective after the Court disposes of the Rule 59 motion. This Rule, however, does not apply to this motion because the Intervenor’s are not yet “parties” to the case. For the Intervenor’s to file a Rule 59 motion, this Court would

have to grant their Rule 24(a) motion, which it cannot do because it does not have jurisdiction to decide that motion.

Id. at \*2 (citation omitted). Katz is on all fours with our case, and the Stay Motion should be dismissed for the same reasons.

Indeed, this Court's pronouncements are consistent with Katz and also mandate denial of the Stay Motion. Zbaraz v. Madigan, 572 F.3d 370 (7th Cir. 2009), is particularly instructive. One issue in that case was whether a timely filed Rule 59 motion suspended the effectiveness of an earlier filed notice of appeal. This Court held that it did not. The reason for that was not because the notice of appeal had been filed before the Rule 59 motion. After all, under Appellate Rule 4(a)(4)(B)(i), it does not matter whether the Rule 59 motion is filed before or after the notice of appeal, as long as it is otherwise timely. Rather, the reason this Court held that the Rule 59 motion did not suspend the effectiveness of the notice of appeal in Zbaraz was that the Rule 59 motion was filed (like here) by a non-party -- indeed, a non-party that (like here) was seeking intervention. 572 F.3d at 376-77. As a result, this Court held in language particularly apt here that:

[t]he district court properly ruled that it lacked jurisdiction to decide the Rule 59 motion, because the proposed intervenors were not before the court when they filed it. Rule 59 requires that the person or entity filing the motion to alter the judgment be a "party" before the court.

Id. This Court has also held that a notice of appeal divests the district court of jurisdiction to rule on a motion to intervene that was filed simultaneously with a notice of appeal. Armstrong v. Bd. of School Dirs. of the City of Milwaukee, 616 F.2d 305, 327 (7th Cir. 1980), overruled on other grounds by Felzen v. Andreas, 134 F.3d 873, 875 (7th Cir. 1998).

Here, because Plaintiff filed his Notice of Appeal, and because the Rule 59(e) Motion was filed by a non-party, the district court has no jurisdiction to rule on the Post-Judgment Motions.

Accordingly, the Post-Judgment Motions present no reason to stay this appeal, and the Stay Motion should be denied.

IV.

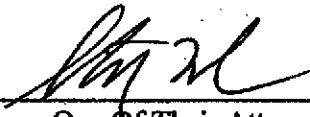
**CONCLUSION**

For the reasons set forth herein, Defendants respectfully request that this Court enter an Order: (a) denying the Stay Motion in its entirety; and (b) granting Defendants such other and further relief as is appropriate.

Respectfully submitted,

MAYER BROWN LLP and RONALD B. GIVEN

By: \_\_\_\_\_

  
One Of Their Attorneys

Stephen Novack  
Mitchell L. Marinello  
Steven J. Ciszewski  
Novack and Macey LLP  
100 N. Riverside Plaza  
Chicago, IL 60606  
(312) 419-6900  
Doc. #356867



**CERTIFICATE OF SERVICE**

Stephen Novack, an attorney, hereby certifies that he caused a true and correct copy of the foregoing Response in Opposition to Plaintiff-Appellant's Motion to Stay Appeal to be served upon the following via U.S. Mail, proper postage prepaid:

Edward T. Joyce  
Arthur W. Aufmann  
Robert D. Carroll  
Edward T. Joyce & Assoc., P.C.  
11 South LaSalle Street  
Chicago, IL 60603

on this 13th day of May, 2010.



---

Stephen Novack

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 3**

**R. Gerard (Gerry) Spehar, CFA**  
1625 Grandview Ave.  
Glendale, CA 91201

**Background Summary**

Mr. Spehar is a Chartered Financial Analyst (CFA) and financial products specialist with twenty-five years market experience and particular expertise in fixed income products. He has worked for top tier financial institutions as a fixed income specialist in research, new product development and institutional sales capacities. Mr. Spehar was recruited to California by **First Interstate Bank** in 1986 as Vice President, Fixed Income Securities. At First Interstate Bank he helped create, develop, sell and manage portfolio risk for the mortgage industry's first servicing hedge contract and other highly successful new products. During the S&L crisis, he was First Interstate Bank's point person with Congress, regulators and government agencies regarding these new products and a speaker at risk management seminars.

During 1991 and 1992, he was responsible for \$6 billion volume, \$16 million fees, and \$9 million profit in mortgage new products. In 1992 he negotiated the early termination of all servicing hedge contracts, resulting in a \$7 million profit. Merrill Lynch, Bankers Trust, Morgan Guarantee and other Wall Street firms later implemented less successful variations of this product. He was a key participant in a comprehensive assessment of all mortgage activities for First Interstate Bank and helped develop mortgage analysis and portfolio management procedures and integrate them with the bank's overall asset/liability management.

In 1993, First Interstate, Ltd. was purchased by **Standard Chartered Bank** and Mr. Spehar was retained as Vice President, New Products and Research to help develop those functions at Standard Chartered.

In 1994, Mr. Spehar was hired by **Alex. Brown & Sons**, a top regional investment banking firm, to establish a West Coast fixed income presence in Los Angeles. During his three-year tenure, he was the top producer in Alex. Brown's fixed income department. He also led a team at Alex. Brown to develop fixed income investment banking opportunities in Mexico, focused on co-financing opportunities for U.S. capital in Mexican middle and low-income housing projects.

In 1997, Alex. Brown merged with Bankers Trust and Mr. Spehar remained in Los Angeles to start **Spehar Capital**. His fixed income and mortgage securities sales and trading business remained highly profitable and his client base of institutional investors and money managers remained intact. He also began to focus on investment banking and venture capital opportunities with young companies.

In 1998 he was recruited and hired by **Nomura Securities, International** in the Los Angeles office as Vice President in the fixed income department. In April of 2000 he resigned from Nomura to exclusively pursue venture capital opportunities through **Spehar Capital**.

Prior to 1986, Mr. Spehar helped establish government bond departments and was a top producer for several regional broker dealers. His accounts included major portfolio managers, insurance companies, state pension funds and mortgage originators.

**Credentials, Licenses and Education**

Chartered Financial Analyst, 1993

Series 24 General Securities Principal

Series 7 General Securities License

Series 63 Uniform State Securities License

Series 3 National Commodity Futures License

BA, University of Colorado, 1970

University of Bordeaux, France, 1968-69

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 4**

**IN THE UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF ILLINOIS, EASTERN DISTRICT**

DAVID GROCHOCINSKI, not individually,	)	
but solely in his capacity as the Chapter 7	)	
Trustee for the bankruptcy estate of	)	
CMGT, INC.	)	
Plaintiff,	)	No. 06 C 5486
	)	
v.	)	Judge Virginia M. Kendall
	)	
MAYER BROWN ROWE & MAW LLP,	)	
RONALD B. GIVEN, and CHARLES W.	)	
TRAUTNER,	)	
	)	
Defendants.	)	

**AFFIDAVIT OF STEVEN D. PREISS**

I, Steven David Preiss, swear and affirm under oath and intending to be bound that the following statements are true and correct:

1. I am a resident of the State of California and am over twenty-one (21) years of age. I have personal knowledge of the facts set forth in this Affidavit and, if called as a witness, could and would competently testify to the matters set forth herein.
2. I received a BS degree from Boston University in 1979. I earned a MBA degree from the University of California, Los Angeles in 1984.
3. From 1984 through 1989, I worked for the investment securities trading arm of First Interstate Bank ("FIB") in Los Angeles, at that time one of the 10 largest U.S. banks and one of a select group of "primary dealers" in U.S. government securities. At FIB, I was a Vice President with particular expertise in fixed income and mortgage backed securities and derivatives of those securities.

4. From 1989 through mid 2000 I worked for Nomura Securities, International ("NSI"), the international broker dealer arm of the then world's largest investment securities firm, Japan's Nomura Securities. I became a Managing Director at NSI in or about 1997 and remained such through my remaining tenure with NSI.

5. From mid 2000 through March 2008, I worked for the investment securities arm of Bank of America ("BofA"), one of the largest U.S. banks. I became a Managing Director at BofA in or around 2005 and remained such until I retired from the investment securities industry in March 2008.

6. As Managing Director at both NSI and BofA, I was directly involved in all hiring decisions for securities and investment professionals in the Structured Products and Mortgage Divisions in the Los Angeles offices, and I am personally familiar with industry hiring criteria and practices.

#### **Personal Knowledge of Spehar**

7. While working at FIB in its Los Angeles headquarters, I worked professionally with, in the same capacity as, and directly alongside Robert Gerard Spehar ("Spehar") from his hiring in June 1986 through the end of my tenure at FIB.

8. I am personally aware that Spehar's securities trading accounts at FIB numbered approximately 20 to 30 and included some of the very largest U.S. institutional money managers, banks and mortgage issuers. As I recall, Spehar's trading accounts at FIB included certain pension funds of the States of Ohio and California, and prior to joining FIB Spehar had also traded directly with certain pension funds of the State of Michigan, which was one of my trading accounts at FIB.

9. I am also personally aware that Spehar's individual trades with his FIB accounts typically amounted to at least \$1 million, often amounted to at least \$10 million, and often amounted to over \$100 million.

10. While at NSI, from late 1993 through April 1998 I personally traded investment securities directly with Spehar while he worked at Alex. Brown & Sons ("Alex. Brown"), then one of the largest and most respected regional securities broker dealers in the U.S., and while he subsequently worked at his own firm, Spehar Capital ("SC"). My nominal trading amounts with Spehar during this time were typically at least \$10 million and often over \$100 million.

11. I am personally aware that NSI's mortgage-derivative hedge fund, which was one of the largest, most successful, and most influential mortgage derivative hedge funds in existence at that time, was also one of Spehar's major trading accounts at both Alex. Brown and SC.

12. While I was working at NSI, Spehar and I studied together and each earned a Chartered Financial Analyst ("CFA") charter in 1993.

13. In or about April 1998, I recruited and was directly responsible for NSI hiring Spehar as a Vice President in its Los Angeles office. From his hiring through April 2000, I then worked directly alongside Spehar in NSI's Los Angeles office until he retired from the securities industry in April 2000.

14. In the securities trading and money management industries, trust in a person's word is absolutely paramount. All trades of any size whatsoever are typically effectuated by phone and are based entirely on trust. Immediately upon a trade being effectuated, the counterparties to that trade typically effectuate other trades of a similar size to protect



their new market positions. Therefore, any bad trade that must be broken or adjusted for any reason can cause severe and damaging economic repercussions for the counterparties.

15. Accordingly, for both ethical and economic reasons, breaches of trust cannot be, and are absolutely not, tolerated in the securities trading and money management industries.

16. In addition, both industries are highly regulated and ethically demanding.

17. In all my years of knowing, working directly with, and trading directly with Spehar, I have always known him to be an extremely competent professional of the highest integrity who always took his professional duties very seriously, always performed them at the highest level, and always held himself strictly accountable to the very high ethical standards demanded in the industry.

18. In all my years of knowing, working directly with, and trading directly with Spehar, I have never known Spehar to have breached a trust or to have engaged in any unethical conduct whatsoever.

19. To my personal knowledge, prior to this legal action Spehar had never been accused by anyone, in the securities industry or otherwise, of breaching a trust or engaging in any other unethical conduct.

#### **Personal Knowledge of CMGT**

20. I am personally aware that Spehar attempted to raise around \$3 million for CMGT, Inc. ("CMGT"), from approximately June 2001 through mid 2003. I know this because Spehar personally approached me and others of our common securities industry colleagues about investing in CMGT.

21. From my own personal and substantial market experience in that era, I know that the capital markets in general were in varying degrees of substantial disarray from 2001 through 2003, both as a result of the Dot.Com crash and the aftermath of the September 11, 2001 New York terrorist attacks.

22. It is my professional assessment that the post-9/11 venture capital market environment was extremely difficult, and it would have been extremely difficult for anyone to raise \$3 million for CMGT from 2001 through 2003. That is largely because (a) in that disrupted capital market environment, investors were generally much more risk adverse than normal and (b) the capital market disruptions at that time had resulted in uncharacteristically good competing returns on many securities that were perceived to be much less risky than CMGT.

23. Like most investors that I knew at that time, I was also very risk-averse and chose to invest in those competing less-risky securities with uncharacteristically-good returns instead of CMGT.

24. In a more normal market, I would have considered an investment in CMGT more closely and much more favorably.

#### **The Court's March 31, 2010 Opinion**

25. I have read the Court's March 31, 2010 Opinion ("Opinion") and I am familiar with its contents.

26. The Opinion contains very troubling ethical findings, statements and inferences with regards to Spehar. In particular, the Court finds, states or infers that Spehar:

- Is an unprincipled “puppetmaster” who controlled and directed an elaborate, far-reaching, “unseemly” (Op. at 19) and “odious” fraud by which “the integrity of the judicial system would be called into question” (*Id.* at 21),
- Intentionally misrepresented CMGT Inc.’s (“CMGT”) business and financial status and the true basis for Spehar Capital, LLC’s (“SC”) damages in sworn testimony to a California Court:

“In order to get the \$17 million judgment, Spehar described CMGT to the California judge as an on-going lucrative business involving the internet connection of human resource directors linked together through a state of the art computer program. As Spehar knew at the time, he had blocked the infusion of capital into CMGT by obtaining the TRO of the infusion deal and no new deal was permitted under the wording of the TRO. ... To represent to the California judge that Spehar would obtain stock and compensation of over \$16 million three years down the road from this entity that was unable to keep its head above water, and which he single-handedly prevented from obtaining the much-needed capital that might give it a gasp of air, was a direct misrepresentation to the California court of the stability of the company and his likelihood of recovery from it in the future. ‘No fraud is more odious than an attempt to subvert the administration of justice.’” (*Id.* at 20-21)<sup>2</sup>

- “Encouraged Grochocinski to file the lawsuit without investigation” (*Id.* at 11), and
- Directed his “puppet[s]” and “prox[ies]”<sup>3</sup> Grochocinski and special counsel Edward T. Joyce and Associates to take contrary positions in different courts (*Id.* at 31),

<sup>1</sup> “Grochocinski merely took Spehar’s orders and followed them. ... To frustrate matters more, Spehar’s hand-selected attorney, Joyce, repeatedly obstructed the truth-seeking process... Spehar was the puppetmaster and Grochocinski his puppet.” (Op. at 23 and 24)

<sup>2</sup> See also *Id.* at 6, 22, 23, 25 and 27.

<sup>3</sup> “Grochocinski acted at all times as a proxy for the real party in this case, SC. ... Grochocinski merely took Spehar’s orders and followed them. ... To frustrate matters more, Spehar’s hand-selected attorney, Joyce, repeatedly obstructed the truth-seeking process... Spehar was the puppetmaster and Grochocinski his puppet. ... Grochocinski is really bringing SC’s personal claim against Defendants.” (*Id.* at 19, 23, 24 and 25)

- All simply to “fulfill a personal feud with Given and CMGT and to collect on a judgment that was obtained by misrepresentation.” (*Id.* at 25)

27. As stated above, the investment securities and money management industries are both highly regulated and ethically demanding.

28. It is my professional opinion that, should Spehar now apply for work in the investment securities or money management industries, the Opinion’s above findings, statements and inferences about Spehar are ethically relevant to any hiring decision, would need to be disclosed to any prospective employer, and any prospective employer would insist that its compliance and hiring managers be alerted to these issues and review the Opinion before considering Spehar’s employment.

29. It is my professional opinion that: (a) as unproven allegations of an opposing litigant such as Mayer Brown, the above statements and inferences about Spehar are meaningless to his professional reputation, CFA credential and ability to earn a living, but (b) as factual findings, statements and inferences of a federal district court they are ethically relevant and extremely harmful to Spehar’s professional reputation, CFA credential and investment industry employment prospects.

30. Although recently retired, because of my substantial investments and professional friendships I stay intimately in touch with many actively employed colleagues in both the securities trading and money management industries. I am thus personally aware of the current employment environment for professionals in those industries.

31. It is my professional assessment that, in the current competitive environment, prospective employers in those industries do not need to take risk in hiring professionals.

32. Accordingly, it is my professional opinion that the Opinion's above referenced factual findings, statements and inferences would preclude Spehar's employment in those industries.

### The CFA Credential

33. As stated above, Spehar and I earned our CFA credentials together in 1993. Although retired, I remain a CFA and I am personally familiar with the requirements for, and the ethical obligations and reporting requirements associated with, the CFA credential.

34. The CFA credential is an internationally recognized qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets. The *Economist* recently ranked the CFA Program as the gold standard among investment analysis designations and Regulators around the world recognize the value of the charter.<sup>4</sup>

35. The CFA charter is offered and administered by the CFA Institute. The CFA program focuses on portfolio management and financial analysis and also provides general knowledge of other areas of finance. CFA candidates must complete a series of three rigorous six-hour academic exams, generally taking one exam per year over three years (assuming a pass on the first attempt). Fees as of December 2009 for all three exams ranged from \$710 to \$955, depending on the date on which the candidate registers to take the exam, plus an additional \$400 to \$480 for program enrollment for new

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<sup>4</sup> CFA Institute: <https://www.cfainstitute.org/cfaprogram/overview/fastfacts/>

members. Exams are challenging, with only 35% of candidates passing the Level I, 46% passing the Level II, and 53% passing the Level III exam in June 2008.<sup>5</sup>

36. Assuming similar statistics for all years, this means that roughly only 8.5% of candidates pass all three exams and become CFAs.

37. In addition to passing the three exams that test the academic portion of the CFA program, candidates must possess a bachelor's degree (or equivalent, as assessed by the CFA Institute) and have 48 months of qualified, professional work experience.<sup>6</sup>

38. There are currently less than 100,000 CFA members worldwide.<sup>7</sup>

39. The CFA charter is highly valued in the investment management and analysis and securities trading industries, where it is generally viewed as the equivalent of a graduate-level degree in finance. It is a highly recommended and highly beneficial designation for any employment candidate in these industries and, to my knowledge, the CFA credential is a "must have" at many firms in the money management industry.

40. By way of example, Payden and Rygel ("Payden") is one of the largest independently-owned professional money management firms in the U.S. Payden currently manages over \$50 billion in assets, has been investing globally for over 25 years, and currently provides a full range of investment strategies and services to investors around the globe. Payden has professionally-staffed offices located in Asia (Beijing, Tokyo), Europe (Frankfurt, Dublin), the United Kingdom (London) and the United States (Los Angeles). Worldwide, Payden employs roughly 150 investment professionals. Four of the six members of Payden's Executive Committee, including

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<sup>5</sup> Wikipedia.

<sup>6</sup> *Id.*

<sup>7</sup> CFA Institute.

CEO and Chair Joan A. Payden, are CFAs. Four of Payden's five Managing Principals are also CFAs.<sup>8</sup>

41. All three CFA exam levels have a strong emphasis on ethics, and all CFAs are obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct. All CFAs must submit an annual Professional Conduct Statement.<sup>9</sup>

42. In my professional opinion, the Opinion's above noted factual findings, statements and inferences about Spehar are ethically relevant and must be reported to the CFA Institute.

43. In my professional opinion, this will result in the loss of Spehar's CFA charter.

44. In my professional opinion, Spehar's CFA charter is extremely important to his re-entry into the workforce in the investment securities trading/analysis and money management industries.

45. In my professional opinion, an employment candidate in the securities trading and investment management industries whose CFA charter has been revoked for ethical reasons would need to disclose that fact to potential employers, and the practical effect - as to hiring, position and/or salary - would be extremely negative and difficult to overcome.

46. In my professional opinion, investment securities and money management firms would likely not hire such a candidate (Spehar), particularly in the current competitive environment.

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<sup>8</sup> <http://www.payden.com/about/management>

<sup>9</sup> CFA Institute.

**ACKNOWLEDGMENT**

State of California  
County of Los Angeles

On May 20, 2010 before me, A. Christensen  
(insert name and title of the officer)

personally appeared Steven D. Preiss  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in  
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the  
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing  
paragraph is true and correct.

WITNESS my hand and official seal.




Signature

[Handwritten Signature] (Seal)



**FURTHER AFFIANT SAYETH NAUGHT**



---

**Steven D. Preiss, CFA**

**Former Managing Director, Nomura  
Securities, International**

**Retired Managing Director, Bank of  
America**

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 5**

FILED *GH*

MAY 04 2010 **NF**

May 04 2010

IN THE UNITED STATES DISTRICT COURT FOR THE  
NORTHERN DISTRICT OF ILLINOIS, EASTERN DISTRICT

MICHAEL W. DOBBINS  
CLERK, U.S. DISTRICT COURT

DAVID GROCHOCINSKI, not individually,  
but solely in his capacity as the Chapter 7  
Trustee for the bankruptcy estate of  
CMGT, INC.

Plaintiff,

v.

MAYER BROWN ROWE & MAW LLP,  
RONALD B. GIVEN, and CHARLES W.  
TRAUTNER,

Defendants.

)  
)  
)  
)  
) No. 06 C 5486  
)  
)

) Judge Virginia M. Kendall  
)  
)  
)  
)  
)

**LIMITED RATIFICATION**

NOW COMES RONALD or LINDA HOLMAN ("HOLMAN") acting *pro se* for  
his/her LIMITED ratification of Robert Gerard Spehar's ("Spehar") Motion to Alter or  
Amend ("Spehar's Motion") filed with this Court on April 28, 2010 and respectfully  
states as follows:

1. I am a valid shareholder and/or unsecured creditor claimant against the Chapter 7  
bankruptcy estate of CMGT, Inc. ("Estate").
2. On March 31, 2010 this Court summarily dismissed the Estate's malpractice  
action ("Malpractice Action") in a Judgment and Opinion ("2010 Opinion") that stated in  
pertinent part:

"Suits brought by a trustee on behalf of creditors must be claims that can be  
asserted by all creditors, not just one. A claim is "personal" "if the claimant

himself is harmed and no other claimant or creditor has an interest in the cause. Here, while Grochocinski's suit against Defendants is couched as a professional malpractice claim brought on behalf of CMGT's estate for the ultimate benefit of all the creditors, Grochocinski is really bringing [Spehar's] personal claim against Defendants." (2010 Opinion at 25) *Emphasis Added.*

3. On April 28, 2010 Spehar intervened in this matter and timely filed Spehar's Motion.

4. I hereby concur with Spehar's Motion to the limited extent that it represents: (a) there are other legitimate claimants against the Estate besides Spehar, including myself, who have an interest in the Malpractice Action ("Other Claimants"), (b) there is a potential \$1.6 million recovery from the Malpractice Action due those Other Claimants, including myself, and thus those Other Claimants are harmed by this Court's dismissal of the Malpractice Action and (c) CMGT, Inc. was not a startup.

WHEREFORE, I hereby ratify the Spehar Motion's prayer that this Court reconsider its 2010 Opinion and immediately set the Malpractice Action for trial by jury so that the truth can be discovered in this matter and so that I and all Other Claimants might potentially recover on our legitimate claims against the Estate.

DATED: May 3, 2010

Respectfully submitted,

By Ronald Halmon  
Acting Pro Se

Address: 9516 BADEN AVE  
CHATSWORTH, CALIFORNIA  
9134

Phone: 818-251-5209 WORK  
818-298-6100 CELL

The parties to this action and the names, addresses, and telephone numbers of their respective attorneys are as follows:

**PLAINTIFF**

David E. Grochocinski  
Grochocinski, Grochocinski & Lloyd, Ltd.  
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Fax: 708-226-9030

Edward T. Joyce  
Arthur W. Aufmann  
Robert D. Carroll  
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11 South LaSalle Street, Ste., 1600  
Chicago, Illinois 60603  
Telephone: (312) 641-2600  
Fax: (312) 641-0360

**DEFENDANT**

MAYER BROWN ROWE & MAW LLP and  
RONALD B. GIVEN  
71 South Wacker Drive  
Chicago, IL 60606-4716  
Telephone: (312) 782-0600

Stephen Novack  
Mitchell L. Marinello  
Steven J. Ciszewski  
Novack and Macey LLP  
100 N. Riverside Plaza  
Chicago, IL 60606  
Telephone: (312) 419-6900

**CERTIFICATE OF SERVICE**

I, RONALD HOLMAN, certify that I caused a copy of the attached *Limited Ratification* to be served on the parties listed above, by fax and/or by depositing with the United States Post Office in VAH NUYS, CA, postage prepaid, prior to 6:00 p.m. this 3 day of May, 2010.

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 6**

**Subject:** RE: Disclosure question  
**From:** CFA Institute PC Program <pcprogram@cfainstitute.org>  
**Date:** Mon, 8 Dec 2008 11:29:10 -0500  
**To:** 'Gerry Spehar' <gspehar1@earthlink.net>

8 December 2008

Mr. Spehar,

Thank you for your follow up email of 3 December 2008.

Sincerely,

Lauri K. Keen  
Manager, Professional Conduct Program  
CFA Institute

---

**From:** Gerry Spehar [mailto:gspehar1@earthlink.net]  
**Sent:** Wednesday, December 03, 2008 9:17 PM  
**To:** CFA Institute PC Program  
**Subject:** Re: Disclosure question

Dear Lauri,

FYI, discovery on the "unclean hands" issue was continued to Jan 31, 2009. It will be decided sometime after that. I'll inform you of the outcome.

Gerry Spehar

CFA Institute PC Program wrote:  
24 July 2008

Dear Mr. Spehar,

Thank you for your email of 21 July 2008. Based on my initial review of the matter, I do not believe this matter requires disclosure on your annual Professional Conduct Statement. However, once the "unclean hands" issue is determined in November 2008, please provide me a follow up email regarding the status and issues remaining in the case.

Sincerely,

Lauri K. Keen  
Manager, Professional Conduct Program  
CFA Institute

---

**From:** Gerry Spehar [mailto:gspehar1@earthlink.net]  
**Sent:** Monday, July 21, 2008 6:37 PM  
**To:** CFA Institute PC Program  
**Subject:** Disclosure question

Hi,

I am member #206462. A few years back I sued and won a \$17 million default judgment against a company, CMGT, Inc., that had, upon advice of counsel, refused to pay my company, Spehar Capital, LLC, for business consulting services. That company is now bankrupt the bankruptcy trustee is suing its former law firm, Mayer Brown Rowe & Maw, for malpractice alleging it mishandled both the dispute with me and my subsequent lawsuit. The trustee seeks to recover both the default judgment that the estate now owes me and other damages. I am not the plaintiff in the malpractice action, but as the largest creditor of the bankruptcy estate and its only secured creditor, I agreed to share my proceeds from the malpractice action (the first \$17 million would have otherwise been mine) with the estate and help the malpractice action by financing the estate and educating the trustee and his special counsel as to the facts.

In the course of defending itself against the trustee's malpractice action, Mayer Brown has alleged that I perpetrated a "fraud on the judicial and bankruptcy systems," that the trustee filed a "fraudulent" and "absurd" complaint and that the trustee and I conspired with "unclean hands" to file his complaint. Mayer Brown's motion to dismiss has been denied as has its motion to reconsider the denial. The "unclean hands" allegation is being discovered as we speak and will be decided on November 4, 2008.

These are absolutely bogus allegations. Do I need to report them?

Thanks,

R. Gerard (Gerry) Spehar

**\*\*CONFIDENTIALITY NOTICE:** This e-mail transmission, and any documents, files, or previous e-mail messages attached to it, may contain confidential information, some or all of which may be legally privileged. If you are not the intended recipient or a person responsible for delivering it to the intended recipient, please be advised that any disclosure, copying, distribution, or use of any of the information contained in or attached to this e-mail transmission is prohibited. If you have received this e-mail transmission in error, please immediately notify the sender by reply e-mail or via telephone or facsimile, and destroy the original transmission and its attachments. Thank you in advance for your cooperation. \*\*



## CFA Institute Membership Professional Conduct Statement

Answer the following five questions (A through E). You must mark an affirmative response if any one of the questions applies. Any matter described in Questions A through E must be disclosed, even if the matter is still pending.

**1. Have you ever been:**

**A. The subject of, a defendant to, or respondent in any investigation, civil litigation, arbitration, or other action or proceeding in which your professional conduct, in either a direct or supervisory capacity, was at issue, or**

**B. The subject of a written complaint regarding your professional conduct in either a direct or supervisory capacity?**

**C. Permanently or temporarily prevented from : (I) acting as a person required to be registered under any law or regulation (i.e. investment advisor, broker, dealer, etc.); (II) acting as an affiliated person or employee of any entity required to be registered under any law or regulation (i.e. investment company, bank, etc.); or (III) trading on any securities or contract market?**

**D. Found to have aided, abetted, counseled, commanded, induced, or procured the violation by any person or entity of any securities or commodities-related law or regulation or any rule promulgated thereunder?**

**E. Convicted of (I) any felony or other crime punishable by more than one year in prison, or (II) a misdemeanor involving moral turpitude (lying, cheating, stealing, or other dishonest conduct) or any substantially equivalent crime in any court of law?**

- No
- Yes, matter currently under investigation by CFA Institute
- Yes, not previously disclosed to CFA Institute
- Yes, matter previously investigated by CFA Institute; review concluded

**Subject:** Confidential Communication from CFA Institute - Spehar  
**From:** Angela Hansen <angela.hansen@cfainstitute.org>  
**Date:** Thu, 13 May 2010 17:45:44 -0400  
**To:** "gspehar1@earthlink.net" <gspehar1@earthlink.net>

Dear Mr. Spehar,

The Professional Conduct Program at CFA Institute is in receipt of your 2010 Professional Conduct Statement.

The Professional Conduct Statement asked,

In the last two years, have you been:

- A. The subject of, a defendant in, or respondent in any investigation, civil litigation, arbitration, or other action or proceeding in which your professional conduct, in either a direct or supervisory capacity, was at issue?
- B. The subject of a written complaint regarding your professional conduct in either a direct or supervisory capacity?
- C. Permanently or temporarily prevented from: (i) acting as a person required to be registered under any law or regulation (i.e., investment advisor, broker, dealer, etc.); (ii) acting as an affiliated person or employee of any entity required to be registered under any law or regulation (i.e., investment company, bank, etc.); or (iii) trading on any securities or contract market?
- D. Found to have aided, abetted, counseled, commanded, induced, or procured the violation by any person or entity of any securities or commodities-related law or regulation or any rule promulgated thereunder?
- E. Convicted of (i) any felony or other crime punishable by more than one year in prison, or (ii) a misdemeanor involving moral turpitude (lying, cheating, stealing, or other dishonest conduct) or any substantially equivalent crime in any court of law?

We note that you marked, "Yes, matter currently under investigation by CFA Institute" on the Professional Conduct Statement. According to our records you have never disclosed a professional conduct matter to the Professional Conduct Program.

Please advise, in writing, whether your "Yes" response was marked in error or if you meant to indicate that you have a new matter that has not yet been disclosed to CFA Institute.

Thank you for your assistance. If you have any questions, please feel free to contact me via reply email.

Regards,  
Ange Hansen

Ange Hansen, CP Professional Conduct Program CFA Institute 560 Ray C Hunt Drive Charlottesville, VA  
22903-0668 USA www.cfainstitute.org



Setting the global standard for investment professionals

17 May 2010

**PRIVATE AND CONFIDENTIAL**

R. Gerard Spehar, CFA  
Spehar Capital, LLC  
1625 Grandview Ave.  
Glendale, CA 91201

Re: Notice of Inquiry

Dear Mr. Spehar:

The CFA Institute Professional Conduct Program is responsible for promoting and protecting the integrity and reputation of the membership, CFA charter designation, and CFA examination program. We do this by diligently enforcing the CFA Institute *Code of Ethics and Standards of Professional Conduct, Bylaws*, and examination rules relating to the CFA Program.

The Professional Conduct Program is in receipt of your 13 May 2010 e-mail in which you provided information regarding a matter you previously disclosed in July 2008. After reviewing the information in your 21 July 2008 e-mail, it was determined that an inquiry into the matter should be opened. It is the policy of the Professional Conduct Program to investigate all such matters to determine whether there have been any violations of the *Code and Standards or Bylaws*. This letter is: 1) to notify you that the Professional Conduct Program has commenced an inquiry; and 2) to begin gathering the information and documents that we need to conduct our investigation. Your cooperation and assistance in this effort will help to ensure that the process is expeditious, and the final result fair and appropriate.

Please note that under the CFA Institute *Rules of Procedure for Proceedings Related to Professional Conduct*, you are allowed to have an attorney assist you at all stages of this investigation, and in any resulting disciplinary proceedings. Additional information concerning our investigative process, and copies of the CFA Institute *Code and Standards, Bylaws*, and *Rules of Procedure*, can be found on our website at: <http://cfainstitute.org/aboutus/conduct/process.html> (hardcopies of these documents are also available upon request).

In connection with the present inquiry, we request that you provide the following documents and information *within thirty (30) days from the date of this letter*:

- 1) Please provide copies of all documents *that set forth any claims or allegations* of professional or criminal misconduct by you. This includes, but is not limited to, the following: complaint letters from clients; arbitration claims; civil complaints/lawsuits; administrative or regulatory actions; and criminal complaints and indictments;

Charlottesville New York Hong Kong London

560 Ray C. Hunt Drive  
PO Box 3668  
Charlottesville, VA  
22903-0668 USA

434 951 5499 tel  
434 951 5262 fax  
[www.cfainstitute.org](http://www.cfainstitute.org)



- 2) Please provide the current status of the matter;
- 3) Please provide any other documents or information that you believe would be relevant or useful in our inquiry.

If you have any questions concerning this letter, please contact me by e-mail at [jennifer.curran@cfainstitute.org](mailto:jennifer.curran@cfainstitute.org).

Very truly yours,

A handwritten signature in black ink, appearing to read 'Jennifer A. Curran'. The signature is stylized and somewhat abstract, with a long horizontal line extending to the right.

Jennifer A. Curran  
Special Investigator - Industry Matters  
Professional Conduct Program

# CFA Institute

awards

**R. Gerard Spehar, CFA**

this

## Certificate of Achievement

in recognition of dedication to professional excellence through participation in 2003 in the  
CFA Institute Professional Development Program developed for the  
enhancement of investment knowledge and skills.

*Monique Spaul*

Chair, CFA Institute

**2003**



*James A. O'Keefe*

President and CEO,  
CFA Institute

**Subject:** Continuing Education Program Recognition  
**From:** "CFA Institute" <update@cfa-institute.org>  
**Date:** Wed, 04 Nov 2009 16:47:40 -0500  
**To:** <gspehar1@earthlink.net>

CFA Institute: logo

4 November 2009

Dear R. Spehar,

On behalf of the CFA Institute Board of Governors, I am pleased to confirm your participation in the voluntary CFA Institute Continuing Education (CE) Program for calendar year 2008. As an investment professional, you know that staying current is critical to success in this rapidly changing industry, and we applaud your commitment to continued learning.

At CFA Institute, we believe in the power of learning at every stage in your career. Accordingly, we pledge to continue to offer a broad array of educational opportunities that bring the highest degree of professionalism, rigor, and relevancy to the pursuit of lifelong learning.

In support of your efforts, please use code **CE2008** for a \$100 discount when registering for a CFA Institute conference or workshop offered between now and July 2010. The one-time discount, valid until 31 August 2010, is in addition to the special rate you receive as a CFA Institute member.

As an added member convenience, we now offer online on-demand certificate printing. You may access detailed instructions for printing your certificate in the FAQ section of our website.

Again, congratulations on your achievement. By participating in lifelong learning, you are demonstrating your commitment to professional excellence and dedication to serving your clients and employer.

Very truly yours,

John D. Rogers, CFA  
President and CEO  
CFA Institute

[Unsubscribe here.](#)

Box 3668, 560 Ray C. Hunt Drive, Charlottesville, VA, 22903

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 7**



**"THE CFA  
PROGRAM  
CHANGED ME  
BECAUSE IT  
OPENED  
THE DOOR  
FOR ME."**

### The CFA Program

The CFA Program is a graduate-level self-study program that combines a broad-based curriculum of investment principles with professional conduct requirements. It is designed to prepare you for a wide range of investment specialties that apply in every market all over the world.

The CFA Program is comprised of three levels of exams. If you pass the exams and meet the ethical and professional requirements, you earn the CFA charter.

### Value for Your Career

Investment industry employers and media around the world recognize the CFA designation as the gold standard of professional excellence. Completing the CFA Program places you in elite company, confirming your mastery of the program's rigorous curriculum and your commitment to the formidable challenge of passing all three levels of examinations.

The CFA Program reflects a broad Candidate Body of Knowledge™ developed and continuously updated by active practitioners to ensure that charterholders possess knowledge grounded in the real world of today's global investment industry. Unlike many postgraduate programs, the self-directed study format allows you to continue working while you progress.

### CFA Program Overview

- **Charterholder benefits**
- **CFA Program fast facts**
- **CFA Program curriculum**

**Learn more .**

### Earning a CFA Charter

- **Enter the CFA Program**
- **Pass three levels of exams**
- **Become a member**

**Learn more .**



## Fast Facts

### History: Into Our Sixth Decade

- First proposed by Benjamin Graham in 1942 as a member of the New York Society of Securities Analysts (NYSSA, founded 1937)
- Founding members of CFA Institute include the **world's oldest corporate financial manager societies**, the Investment Analysts Society of Chicago (founded 1925) and NYSSA

### Recognition: Worldwide

- The *Economist* ranked the CFA Program as the gold standard among investment analysis designations
- **Regulators around the world** recognize the value of the charter

### Academics: Rigorous

- **Self-study curriculum:** Developed by a broad-based global practice analysis conducted every five years
- **Three levels of exams:** Successful candidates report spending an average of about **300 hours** preparing for each exam, depending on individual circumstances.
- **Generalist approach:** Emphasizes principles that are relevant in every market

### Member Network: Invaluable

- **Global network of nearly 100,000 members**
- **Highly active professional membership organization**
- **Members play leading roles in:**
  - Investment companies
  - Mutual funds
  - Broker-dealer/investment banks
  - Banks
  - Consulting firms
  - Insurance companies
  - Pensions and foundations
  - Research and academic institutions

Once you become a CFA charterholder, you must comply with the following:

- The CFA Institute conditions, requirements, policies, and procedures for CFA charterholders and CFA Institute members. These include:
  - **Articles of Incorporation and Bylaws (PDF)**
  - **Code of Ethics and Standards of Professional Conduct**
  - **Rules of Procedure for Proceedings Related to Professional Conduct (PDF)**
  - Other conditions, requirements, policies, and procedures that may be established and amended from time to time
- You must also submit an annual **Professional Conduct Statement** and pay **membership dues**.

Failure to comply with the CFA Institute conditions, requirements, policies, and procedures can result in disciplinary sanctions, including suspension or revocation of the right to use the CFA designation.

**Renew membership Renew or  
reactivate your CFA  
Institute or CIPM  
Association membership**

**Annual Dues** The CFA Institute member year runs from 1 July to 30 June CFA Institute membership

- CFA Institute annual dues are US\$275\*
- CFA Institute annual dues for members on **retired status** are US\$100
- Society dues vary; visit your local **society website** for specific rates

**CIPM Association membership**

- CIPM Association annual dues are US\$275\*
- CFA Institute members who are also members of the CIPM Association pay \$50 in annual dues (In addition to their CFA Institute member dues).

\*The CFA Institute Board of Governors approved a dues increase for the 2010-2011 member year. [Learn more \(PDF\)](#).



### Benefits of Membership

With CFA Institute membership, you gain access to powerful tools, information, and educational opportunities including the exclusive **My CFA online member experience**.

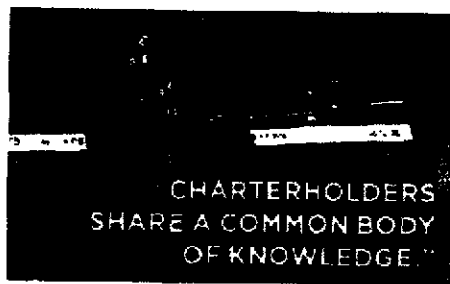
What It Means to Be a Member Membership in CFA Institute is a commitment to maintaining the professional skills and ethics that will contribute to stronger and more ethical global markets. It is a commitment that places the public interest above personal gain or corporate loyalty. With a global community of professionals, CFA Institute members are leading the way for greater integration, innovation, and standardization of international markets.

**Take advantage of a wide variety of exclusive educational and career resources** developed in-house and by corporate and academic partners. With a wealth of publications, career events, conferences, seminars, webcasts, and more, CFA Institute keeps members updated with the latest developments in the global investment profession.

#### **In-person or online, members can:**

- Learn new perspectives
- Network locally and globally
- Explore career opportunities
- Discover investment solutions

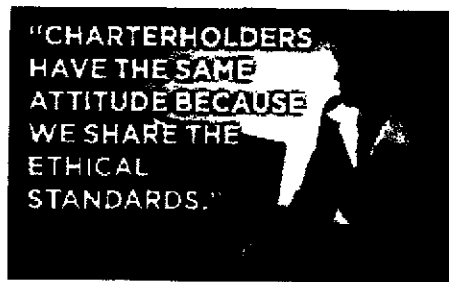
**Learn how to apply for membership**



## Learning Topics

Our learning topics are based on the **Global Body of Investment Knowledge (GBIK)** (PDF). The practice analysis process that leverages the broad expertise and specialized knowledge of our global membership, panels of industry experts, and employers, allows us to keep pace with trends and current practices in our effort to deliver relevant lifelong learning opportunities to our members.

- **Alternative Investments**
- **Behavioral Finance**
- **Corporate Finance**
- **Derivatives**
- **Economics**
- **Equity Investments**
- **Financial Statement Analysis**
- **Fixed Income**
- **Leadership, Management & Communication Skills**
- **Performance Measurement & Evaluation**
- **Portfolio Management**
- **Private Wealth Management**
- **Quantitative Methods**
- **Risk Management**
- **Standards, Ethics & Regulations (SER)**



## Professional Conduct Program

A commitment to professional ethics is at the core of CFA Institute

We enforce the **Code of Ethics and Standards of Professional Conduct** and the rules and regulations of the CFA Program.

### We monitor compliance through:

- **Professional Conduct Statements**
- **Public complaints**
- **Public information/media reports**

CFA Institute members and CFA Program candidates are subject to professional conduct enrollment/admission criteria and must comply with the Code and Standards. Additionally:

**Members must annually complete and sign a Professional Conduct Statement, disclosing any allegations of professional misconduct.**

**Candidates must submit a Candidate Professional Conduct Statement as part of each exam registration.**

Learn about our **process for investigating alleged violations** or view **statistics and details** on previously issued sanctions.

**Questions? Contact us**

## About the Professional Conduct Statement

**What is it?** A signed statement disclosing any professional-related litigation or arbitration, customer complaints, and/or disciplinary proceedings.

**Who signs it?** All members (CFA charterholders, regular members, affiliate members)

**When is the PCS submitted?** Members submit on an annual basis, with the payment of membership dues.

**How is the PCS submitted?** The PCS is available to sign online when you pay your dues.

**If I make a disclosure on the PCS, what happens?** The Professional Conduct Program will provide **Notice of Inquiry** which commences an investigation. The notice will request specific information about your disclosure.

**What happens when a PCS is not submitted?** Failure to complete, sign, and submit the PCS can result in suspension of CFA Institute membership and/or the right to use the CFA designation.

**If you have questions regarding whether an incident or matter requires disclosure on the PCS, please contact the Professional Conduct Program.**

## Codes, Standards & Guidelines

- Read the **Codes of Ethics and Standards of Professional Conduct (PDF)**
- Find **translations of the Code and Standards**
- Find more **ethics resources**

### Code of Ethics & Standards of Professional Conduct Fundamental to Our Values

The Code of Ethics and Standards of Professional Conduct are the ethical cornerstone of CFA Institute. They are **essential to our mission** to lead the global investment profession and critical to maintaining the public's trust in the financial markets.

First created in the 1960s, the Code and Standards are the ethical benchmark for investment professionals around the globe, regardless of job title, cultural differences, or local laws.

All of our members and CFA Program candidates must adhere to the **Code and Standards (PDF)**.

### What Do the Code and Standards Cover?

#### **Code of Ethics:**

- Place the integrity of the profession and the interests of clients above your own interests
- Act with integrity, competence, and respect
- Improve and maintain your professional competence

#### **Standards of Professional Conduct:**

- Professionalism
- Integrity of the capital markets
- Duties to clients
- Duties to employers
- Investment analysis and recommendations
- Conflicts of interest

**Periodic Review of Code and Standards:** CFA Institute is currently conducting a periodic review of the Code and Standards as well as the accompanying *Standards of Practice Handbook*. [Learn more.](#)



## Codes, Standards & Guidelines

- **Read the Asset Manager Code of Professional Conduct (PDF)**
- **Adopt the code**
- **View list of firms claiming compliance with the code (PDF)**

## Asset Manager Code of Professional Conduct

Ethical behavior begins at the highest level of investment management firms and requires a consistent, company-wide approach to keeping investor protection and the professional conduct of managers as top priorities.

### **What Does the Asset Manager Code of Professional Conduct™ Cover?**

The **Asset Manager Code of Professional Conduct (PDF)** outlines the ethical and professional responsibilities of firms that manage assets on behalf of clients. It provides standards and supportive guidance based on general principles of conduct.

The **Asset Manager Code of Professional Conduct** states that managers have these responsibilities to their clients:

- To act in a professional and ethical manner at all times
- To act for the benefit of clients
- To act with independence and objectivity
- To act with skill, competence, and diligence
- To communicate with clients in a timely and accurate manner
- To uphold the rules governing capital markets

Find out more about the principles of the Code.

### **Who should adopt the Asset Manager Code of Professional Conduct?**

- Firms that manage client assets as separate accounts or pooled funds
- Firms that are not required to register with a regulator, such as hedge funds
- Firms that currently do not have a code of ethics

Find out how your firm can adopt the Code.

## **Additional Resource**

### **Additional guidance and interpretations**

**Codes, Standards & Guidelines**  
**Read the Pension Trustee**  
**Code of Conduct (PDF)**

**Acknowledge your claim of**  
**compliance (PDF)**

**Pension Trustee Code of Conduct**

**We encourage pension plans to adopt the Code of Conduct for Members of a Pension Scheme Governing Body. Adopting the code:**

- Establishes an ethical framework for governing board members
- Shows commitment to the best interests of pension participants and beneficiaries

**What Does the Pension Trustee Code Cover?**

**The code outlines 10 fundamental ethical principles for pension fund trustees:**

- Act in good faith and in the best interest of the scheme participants and beneficiaries
- Act with prudence and reasonable care
- Act with skill, competence, and diligence
- Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty
- Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents
- Deal fairly, objectively, and impartially with all participants and beneficiaries
- Take actions that are consistent with the established mission of the scheme and the policies that support that mission
- Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries
- Maintain confidentiality of scheme, participant, and beneficiary information
- Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner

**The principles are universally applicable regardless of the type or nature of the pension scheme. Guidance in support of the principles is included.**

**Who Should Adopt the Pension Trustee Code?**

- Public companies
- Governmental agencies
- Unions
- Pension schemes administrators

**Plan participants and beneficiaries should ask their pension scheme managers to incorporate the Pension Trustee Code.**

The Pension Trustee Code is voluntary. But we believe that effective self-regulation that goes beyond the minimum requirements of the law is the most effective and efficient form of market regulation.

**Acknowledge your organization's compliance with the Pension Trustee Code (PDF).**

**We developed the Pension Trustee Code** with a multinational coalition that included the Council of Institutional Investors (United States), Organization for Economic Cooperation and Development, National Association of Pension Funds (United Kingdom), Swiss Association of Pension Funds, Hong Kong Retirement Schemes Association, and Dutch Association of Industry-wide Pension Funds. We also asked for public comments from all major global financial markets and stakeholders.

**Questions? Contact us.**

**SPEHAR JUNE 10, 2010 REPLY**

**on**

**SPEHAR APRIL 28, 2010 MOTION TO INTERVENE**

**EXHIBIT 8**

# Chartered Financial Analyst

From Wikipedia, the free encyclopedia

CFA is an international professional designation offered by the CFA Institute (formerly known as AIMR) to financial analysts who complete a series of three examinations. To become a **CFA Charterholder** candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and <sup>[1]</sup> have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.<sup>[2]</sup>

## Contents

- 1 The CFA designation
  - 1.1 History
  - 1.2 Requirements
- 2 The CFA curriculum
  - 2.1 Ethics
  - 2.2 Quantitative Methods
  - 2.3 Economics
  - 2.4 Financial Reporting and Analysis
  - 2.5 Security Analysis
  - 2.6 Portfolio Management
- 3 The Code of Ethics
- 4 Legal and Other Recognition
- 5 Trademark disputes
- 6 See also
- 7 References
- 8 External links

## The CFA designation

The CFA is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets. The program focuses on portfolio management and financial analysis, and provides a generalist knowledge of other areas of finance.

From 1963 (when the CFA designation was first awarded) to 2006, approximately 78,000 people from at least 126 different countries have been awarded the right to use the CFA designation, 68,000 of them in the years since 1990. As of 2006, more than 116,000 people are currently enrolled to take one of the examinations.<sup>[3]</sup>

## History

The predecessor of CFA Institute, the Financial Analysts Federation (FAF), was originally established in 1947 as a service organization for investment professionals in its societies and chapters. In 1990, in hopes of boosting the credential's public profile, CFA Institute (formerly the Association for Investment Management and Research or AIMR) was created from the merger of the FAF and the Institute of Chartered Financial Analysts (ICFA). Many Financial Analysts (FA credential) were "grandfathered" into CFA charterholders without taking any of current levels as a result of the 1990 merger between the ICFA and FAF.

The CFA program began in the United States but has become increasingly international with many people becoming charterholders across Europe, Asia and Australia. By 2003 fewer than half the candidates in the CFA program were based in the US and Canada, with most of the other candidates based in Asia or Europe. India and China have shown some of the highest growth from 2005-2006 with increases of 25% and 53% respectively in the total number of charterholders.<sup>[4]</sup>

## Requirements

The basic requirements for participation in the CFA program include holding or being in the final year of a university degree (or equivalent as assessed by CFA Institute), or having four years of qualified, professional work experience in an investment decision-making process. To obtain the charter, however, a candidate must have completed a university degree (or equivalent) *and* four years of qualified, professional work experience, in addition to passing the three exams that test the academic portion of the CFA program.<sup>[1]</sup>

Candidates generally take one exam per year over three years (assuming a pass on the first attempt). Fees as of December 2009 for all three exams range from \$710 to \$955, depending on the date on which the candidate registers to take the exam, plus an additional \$400 to \$480 for program enrollment for new members. Exams are challenging, with only 35% passing the Level I, 46% passing Level II, and 53% passing Level III exam in June 2008.<sup>[5][6]</sup> In 2006, Europe achieved the highest average pass rate for the Level I, II and III of the exam with an overall success rate of 57% of candidates versus 54% for the USA and 49% in Asia and Pacific.

Year	Level 1	Level 2	Level 3
2009	46%/32%	41%	49%
2008	35%	46%	53%
2007	39%	40%	50%
2006	40%	48%	76%
2005	35%	56%	55%
2004	35%	32%	64%
2003	41%	47%	68%
2002	44%	47%	58%

All three levels have a strong emphasis on ethics. The material differences among the exams are:

- The Level I study program emphasizes tools and inputs, and includes an introduction to asset valuation, financial reporting and analysis, and portfolio management techniques.
- The Level II study program emphasizes asset valuation, and includes applications of the tools and inputs (including economics, financial reporting and analysis, and quantitative methods) in asset valuation.
- The Level III study program emphasizes portfolio management, and includes strategies for applying the tools, inputs, and asset valuation models in managing equity, fixed income, and derivative investments for individuals and institutions.

All three exams are administered on paper on a single day; the Level I exam is administered twice a year (usually the first weekend of June and December). The Level II and III exams are administered once a year, usually the first weekend of June. Each exam consists of two three-hour sessions. Level I is multiple choice - all information required to answer the question is contained in the question. Level II is item set - a vignette followed by selected response questions. To answer each question, the candidate must refer to the vignette as there is insufficient information in the question stem. Level III consists of a session of short-answer questions and a session that is item set. On the multiple-choice/item set sections, there is no penalty for wrong answers.

Candidates who have taken the exam receive a score report that is intended to be fairly unspecific: there is no overall score for the test, only a Pass/Fail result. However, candidates who fail are informed of how well they did compared to other candidates who failed; e.g., top 10% of candidates who failed. For each topic area (e.g., ethics, corporate finance, derivative securities, and so on), each test-taker is given a broad range within which his or her performance falls: below 50%, between 50% and 70%, and above 70%. The passing grade for the exams had been defined as 70% of the top percentage of exam papers until 1989; since then, the grading method is not explicitly published<sup>[3]</sup> and the minimum passing score is set by the Board of Governors after each exam. The Board of Governors reviews the results of the standard setting process and input from psychometricians.

Standard setting is a process that defines the passing score of the exam. The CFA exam utilizes the modified Angoff method, which is a commonly-used approach to setting standards for certification and licensure examinations. Subject matter experts review the exam and recommend, for each question, a minimum passing score for the "just-qualified candidate". The minimum passing scores for each question are aggregated and presented to the Board of Governors as a recommended minimum passing score for the entire exam. The Board of Governors is not bound by this recommendation, but does recognize it as very important information.

## The CFA curriculum

The curriculum for the CFA program is based on a Candidate Body of Knowledge established by CFA Institute.<sup>[7]</sup> For exams from 2008 onward, candidates automatically receive the curriculum readings from CFA Institute when they register for the exam. There is no possibility to register for the exam without receiving the curriculum. There is also no possibility to order the curriculum separately. If the student fails an exam and has the possibility to resit in the same year, CFA Institute offers a slight rebate and will not send the curriculum again (the curriculum only changes from one year to the next). However if the student resits in another year than the year of failure, he will receive the curriculum again as it may have

been changed. For the test, only two calculators are allowed (the Hewlett Packard 12C and the Texas Instruments BA II Plus).

The curriculum includes these topic areas:

- Ethical and Professional Standards
- Quantitative Methods (such as the time value of money, and statistical inference)
- Economics
- Financial Reporting and Analysis
- Corporate Finance
- Analysis of Investments (stocks, bonds, derivatives, venture capital, real estate, etc.)
- Portfolio Management and Analysis (asset allocation, portfolio risk, performance measurement, etc.)

Study materials for the CFA Exams are available from numerous learning providers.

## **Ethics**

The ethics section is primarily concerned with compliance and reporting rules when managing an investor's money or when issuing research reports. Some rules pertain more generally to professional behavior (such as prohibitions against plagiarism); others specifically relate to the proper use of the designation for charterholders and candidates. All of these rules are delineated in the 'Code and Standards'.

## **Quantitative Methods**

This topic area is dominated by statistics; other topics such as the time value of money are also addressed. The topics are fairly broad, covering standard ideas such as hypothesis testing, regression analysis and time series analysis, as well as portfolio-related topics. (Some quantitative topics are covered in other sections; for example, calculating depreciation of assets is a part of financial reporting and analysis (accounting), and determining currency arbitrage is a part of international economics.)

## **Economics**

Both micro- and macroeconomics are covered, including international economics (mainly related to currency conversions and how they are affected by international interest rates and inflation). By Level III, the focus is on applying economic analysis to portfolio management and asset allocation.

## **Financial Reporting and Analysis**

The Curriculum includes analyzing financial reporting topics (IFRS and GAAP), and ratio and financial statement analysis. Financial reporting and analysis of accounting information is heavily tested at Levels I and II, but is not a significant part of Level III.

## **Security Analysis**

The curriculum includes coverage of global markets, as well as analysis of the various asset types: equity



(stocks), fixed income (bonds), derivatives (futures, forwards, options and swaps), and alternative investments (Real Estate, Private Equity, Hedge Funds and Commodities). The Level I exam requires familiarity with these instruments; the focus of Level II is valuation; Level III studies incorporation of these instruments into portfolios.

## **Portfolio Management**

This section increases in importance with each of the three levels - it integrates and draws from the other topics, including ethics. It includes Modern portfolio theory (efficient frontier, Capital asset pricing model, etc.), investment practice (defining the investment policy, resultant asset allocation, order execution), and measurement of investment performance.

## **The Code of Ethics**

Members of CFA Institute (including charterholders and candidates for the CFA designation) must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on ourselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals

## **Legal and Other Recognition**

- The Society of Actuaries (SOA) granted the credit of Validation by Educational Experience (VEE)-Economics to the candidates who passed the CFA Level I exam. SOA also granted both the credits of VEE-Corporate Finance and VEE-Applied Statistical Methods to the candidates who passed the CFA Level II exam.<sup>[8]</sup>
- New York Stock Exchange (NYSE) granted CFA charterholders the option to take only the portion of the Supervisory Analyst examination dealing with exchange rules on research standards and related matters.<sup>[9]</sup>
- U.S. Securities and Exchange Commission (SEC) may grant exemption of the Series 86 testing requirements to financial analysts passing the CFA Level II examination who also meet other requirements of the NASD.<sup>[10]</sup>
- U.S. American Institute of Certified Public Accountants (AICPA) granted CFA charterholders the option to satisfy the ABV examination requirements by passing the half-day Accredited in Business

## Valuation (ABVI) examination.

- CFA charterholders are recognized by UK's Securities & Investment Institute (SII) (<http://www.sii.org.uk>) as the equivalent level of SII full membership (MSI) or fellow membership (FSI).<sup>[11]</sup> Full membership of SII is recognized by several national investment professional bodies such as Hong Kong Securities Institute (HKSI) in Hong Kong.
- Taiwan's Financial Supervisory Commission (FSC)<sup>[12]</sup> has approved the CFA designation with two-year practical working experience and passed the test of regulations of Securities Investment Trust & Consulting Enterprise and the test for common knowledge of financial markets and professional ethics, the common subjects, as equivalent to a local recognized industry qualification of Certified Securities Investment Analyst (CSIA) in Taiwan, after reviewed and approved by Securities Investment Trust & Consulting Association (SITCA).<sup>[13]</sup>
- The Academic and Accreditation Advisory Committee of Hong Kong's the Securities and Futures Commission (SFC) has approved the CFA designation as a recognized industry qualification for the licensing of Responsible Officers in Hong Kong.<sup>[14]</sup>
- CFA charterholders who meet the competence requirement, which include both education training and work experience, may apply to register with the *Hong Kong Business Valuation Forum (HKBVF)* as Registered Business Valuer (RBV) in Hong Kong.<sup>[15]</sup>
- CFA charterholders are recognized by HK's Hong Kong Securities Institutes (HKSI) as the equivalent level of HKSI full membership (MHKSI).<sup>[16]</sup>
- CFA charterholders are recognized by PRMIA (Professional Risk Managers' International Association) as the equivalent of passing first two required exams.<sup>[17]</sup>
- Exemptions are available for various modules in the South African Registered Persons Examination, depending on the candidate's level.<sup>[18][19]</sup> No exemptions are available for the examination on local market regulations and compliance.

## Trademark disputes

### INDIA - ICFAI university and AICTE vs CFAI

CFA Institute is not affiliated with the *Chartered Financial Analyst* degree offered by the ICFAI (Institute of Chartered Financial Analysts of India) University of India or its affiliate, the Council of Chartered Financial Analysts. In 1998, CFA Institute's predecessor organization, AIMR, sued and won a judgment against ICFAI/CCFA.<sup>[20]</sup> The judgment prohibited ICFAI/CCFA and its members from using the CFA or Chartered Financial Analyst mark in the United States and Canada. In August 2006, an Indian court issued a temporary injunction against the Indian organization as well.<sup>[21]</sup> The judgments made no assessment of the quality of the Indian program and merely discussed the trademark violation. The Indian Association of Investment Professionals is the only organization in India which is affiliated with CFA Institute.<sup>[22]</sup> Contrary to some misleading news reports, CFA Institute trademark rights to the "CFA" and "Chartered Financial Analyst" brands have been recognized in India by the Delhi High Court. Further, the Delhi High Court issued an interim injunction ordering ICFAI and its affiliated Council of Chartered

Financial Analysts to stop using CFA Institute trademarks. The Deputy Registrar of Trade Marks did recently determine that a trademark registration issued to CFA Institute for the "CFA" brand must be republished due to an error by the Trade Marks Registry. CFA Institute has numerous trademark applications on file with the Trade Marks Registry, and CFA charterholders from CFA Institute are free to use the "CFA" and "Chartered Financial Analyst" marks throughout India.<sup>[23]</sup> On May 8, 2007, the US District Court for the Eastern District of Virginia vacated a Default Judgment issued against ICFAI that CFA Institute obtained in October 1998. ICFAI recently moved to reopen the case and to vacate the Default Judgment because the Court lacked jurisdiction over ICFAI at the time the Default Judgment issued. With the default judgement vacated ICFAI informed Indian CFA Charter holders that they could legally use their Charter in the US and Canada. However, on September 4, 2007, the Court reversed its decision to vacate after a motion to reconsider that decision was filed by CFA institute.<sup>[24][25]</sup> The latest update on the CFA Institute's legal battle in India can be found from the interview of Dr. Ashvin P. Vibhakar, Managing Director of the CFA Institute.<sup>[26]</sup>

### UNITED KINGDOM - Trade Marks Registry vs CFAI

In January 2007, the Trade Marks Registry, UK refused to grant protection to the CFA trademark, as the word 'chartered' in the United Kingdom is associated with royal charters.<sup>[27]</sup>

### See also

- CIAA
- CAIA
- Chartered Market Technician
- Certified Financial Planner

### References

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## External links

- CFA Institute (<http://www.cfainstitute.org/>)
- CFA Institute — Member Societies (<http://www.membersocieties.org/>)

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