

CDO Lawsuit Summary

On Wednesday, August 10 the Securities and Exchange Commission (SEC) filed fraud charges against Stifel Nicolaus and their broker, David Noack. The Whitefish Bay School District and 4 other school districts have been in litigation since 2008 against Stifel Nicolaus and the Royal Bank of Canada, asserting that they were misled about the risk involved in the investments. On Wednesday, the SEC charged that Stifel Nicolaus failed to clearly explain the risk and were also negligent in offering this product to the school districts in question because of their complexity.

In the press release issued by the five schools in the lawsuit, Dr. Gavigan stated: "I am grateful to the SEC for bringing these justified charges. This is the beginning of the end of what has been a distraction for our board and administrators. We look forward to recover of the money taken from us by fraud."

On Thursday, it was reported late in the day that Stifel Financial Corp., which was also named as a defendant in the civil suit, had finalized their agreement to purchase notes with a face value of about \$162.5 million from Depfa Bank PLC. Depfa had loaned the money to the districts to purchase the CDO. As Friday morning, the implications of this note purchase by Stifel Financial are still undetermined.

In their press release Stifel Financial Corp explains that "the notes were purchased at a discount, and immediately written down." In Thursday's Milwaukee Journal Sentinel School Zone blog, the press release from Stifel Financial is referenced and the reporter states "It's unclear whether Stifel's essential repayment of what the districts borrowed from DEPFA clears the school district's debt with that European bank. I'm trying to find out. Stay tuned."

It is reported that over 3 million pages of discovery documents have been reviewed and analyzed by the attorneys representing the school districts. Obviously trying to sum this all up in a couple paragraphs is ambitious. For more information try:

<http://www.jsonline.com/news/education/127499528.html>

<http://www.jsonline.com/news/127528148.html>

Additional articles about the history of the CDO can be found on the AFE website:

www.advocatesforeducation.org

Link to press release from District attorneys:

<http://yahoo.brand.edgar-online.com/displayfilinginfo.aspx?FilingID=8091302-6116-8311&type=sect&dcn=0000720672-11-000106>

Friday, August 12, 2011

Advocates for Education of Whitefish Bay, Inc.

www.advocatesforeducation.org