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

RALPH S. JANVEY, IN HIS CAPACITY AS COURT-APPOINTED RECEIVER FOR THE STANFORD INTERNATIONAL BANK, LTD ET AL.,	)	
Plaintiff,	)	**Case No. 03:09-CV-0724-N**
v.	)	
JAMES R. ALGUIRE, ET AL.,	)	
Defendants.	)	

BRIEF IN SUPPORT OF MOTION OF DEFENDANTS JULIAN "BRAD" BRADHAM, NOLAN FARHY, BLANCA FERNANDEZ, VIRGIL HARRIS, NANCY HUGGINS, LOU SCHAUFELE, HARVEY SCHWARTZ, STEVE SLEWITZKE, AND ERIC URENA TO DISMISS AND TO COMPEL ARBITRATION

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COME NOW, Julian "Brad" Bradham, Nolan Farhy, Blanca Fernandez, Virgil Harris, Nancy Huggins, Lou Schaufele, Harvey Schwartz, Steve Slewitzke, and Eric Urena (the "Nine Defendants"), through undersigned counsel, and submit this brief in support of their motion to dismiss the Receiver's Second Amended Complaint Against Former Stanford Employees (the "Complaint") dated December 18, 2009 pursuant to Federal Rules of Civil Procedure 12(b)(3) and (6). The claims asserted by the Receiver in the Complaint are subject to and fall under valid mandatory arbitration clauses, or are otherwise subject to arbitration per FINRA rules. Further, venue for the claims asserted is improper here where the parties have formally agreed to arbitrate the claims in a foreign venue.

I. INTRODUCTION

In keeping with the theme of the Stanford Receivership to date, the Nine Defendants find themselves asking this Court for relief from overreaching by the Receiver. The Nine Defendants seek to compel the Receiver to resolve his claims in the manner in which the parties originally agreed to or are otherwise bound to. The question posed to the Court by the instant motion is relatively simple: Is there a valid mandatory arbitration clause in place or governing industry rule that requires the Receiver to arbitrate the claims raised in the Complaint against the Nine Defendants? The answer must be yes where all Nine Defendants and the Stanford Group Company ("SGC") signed substantially similar Promissory Note Forgivable Loans (the "Note") and/or Form U-4 documents that contain arbitration clauses, and where all Nine Defendants and SGC were both subject to FINRA rules requiring arbitration of such claims. Unfortunately, the Receiver has the Notes, Form U-4s, and knows that FINRA rules apply here, yet the Nine Defendants are still forced to ask this Court for relief.

II. FACTUAL BACKGROUND

The Nine Defendants were all formerly employed by SGC. Bradham, Farhy, Harris, Shaufele, Schwartz, Slewitzke, and Urena were all financial advisors with SGC. Fernandez was a Vice President and Huggins was a Managing Director. All Nine Defendants were registered with FINRA as working for SGC. As inducement for most of the movants to accept positions with SGC and to bring their existing clients with them they were offered employee forgivable loans ("EFLs") at or about the beginning of their employment with SGC. A true and correct copy of Slewitzke, Fernandez, and Schwartz's Notes are provided as examples and are attached hereto as Exhibit A. The instrument

governing the terms of each of the EFLs is the Note. (Id.). The Note for each EFL at issue is substantially similar, and was the only agreement between the movants and SGC regarding the EFLs. (Id.). The Note states in pertinent part, "Borrower hereby agrees that **any controversy arising out of or relating to this Note**, or default on this Note, **shall be submitted to and settled by arbitration** pursuant to the constitution, by-laws, rules and regulations of the National Association of Securities Dealers (NASD) **in the local area of the principal office.**"[1] (Id.) (emphasis added).

In addition, at or about the beginning of their employment with SGC the Nine Defendants were required to sign the standard Form U-4 Uniform Application for Securities Industry Regulation or Transfer. The U-4 forms were all submitted by SGC to FINRA in order to obtain necessary licenses for the Nine Defendants. The U-4 forms submitted by SGC to FINRA all stated in pertinent part, "I agree to arbitrate any dispute, claim or controversy that may arise between me and my firm, or any other person, that is required to be arbitrated under the rules, constitutions, or by-laws of the SROs indicated in Section 4 (SRO REGISTRATION) as may be amended from time to time and that any arbitration award rendered against me may be entered as a judgment in any court of competent jurisdiction."

Even in the absence of these binding arbitration clauses, SGC is otherwise required to arbitrate claims and disputes against its former employees per the FINRA Code of Arbitration for Industry Disputes ("FINRA Code"). FINRA Code Rule 13100(o) defines a FINRA "Member" as "...any broker or dealer admitted to membership in FINRA, whether or not the membership has been terminated or cancelled; and any broker

[1] As the Court is likely aware, the National Association of Securities Dealers was merged into the Financial Industry Regulatory Association ("FINRA") in 2007.

or dealer admitted to membership in a self-regulatory organization, that with FINRA consent, has required its members to arbitrate pursuant to the Code and/or to be treated as members of FINRA for purposes of the Code, whether or not the membership has been terminated or cancelled." As a registered broker/dealer, SGC was a FINRA Member. Rule 13100(a) defines an "Associated Person" as, "a person associated with a member, as that term is defined in paragraph (r)." Rule 13100(r) defines a "Person Associated with a Member" as "a natural person registered under the Rules of FINRA; or a sole proprietor, partner, officer, director, or branch manager of a member, or a natural person occupying a similar status or performing similar functions, or a natural person engaged in the investment banking or securities business who is directly or indirectly controlling or controlled by a member, whether or not any such person is registered or exempt from registration with FINRA under the By-Laws or the Rules of FINRA." The Nine Defendants are all Associated Persons as defined by the FINRA Code. FINRA Code Rule 13200(a) provides that "...a dispute must be arbitrated under the Code if the dispute arises out of the business activities of a member or an associated person and is between or among: Members; Members and Associated Persons; or Associated Persons."

On December 18, 2009 the Receiver filed the Complaint. Despite the specious nature of the allegations, at its core the Complaint alleges that virtually all money paid to former SGC employees was the fruit of the poison SIBL CD tree and must be clawed back for the benefit of the Receivership Estate. The Receiver advances his claims on the state law theories of fraudulent transfer and unjust enrichment. As specifically related to the Nine Defendants, the Complaint alleges that:

- Julian "Brad" Bradham received CD proceeds in the form of Loans (the aforementioned employee forgivable loans), SIBL CD commission payments, and Branch Managing Director Quarterly Compensation;

- Nolan Farhy received CD proceeds in the form of Loans (the aforementioned employee forgivable loans), and SIBL CD commission payments;

- Virgil Harris received CD proceeds in the form of SIBL CD commission payments, SIBL Quarterly Bonuses, and PARS payments;

- Louis Schaufele received CD proceeds in the form of SIBL CD commission payments, SIBL Quarterly Bonuses, and PARS payments;

- Steve Slewiztke received CD proceeds in the form of Loans (the aforementioned employee forgivable loans), CD commission payments, and SIBL Quarterly Bonuses; and

- Eric Urena received CD proceeds in the form of Loans (the aforementioned employee forgivable loans), CD commission payments, and SIBL Quarterly Bonuses;

- Harvey Schwartz received CD proceeds in the form of Loans (the aforementioned employee forgivable loans), and CD commission payments;

- Blanca Fernandez received CD proceeds in the form of Loans (the aforementioned employee forgivable loans); and

- Nancy Huggins received CD proceeds in the form of a severance payment.

The Receiver stands in the shoes of SGC for purposes of making the above-listed claims. Aside from the fact that the vast majority of the above-listed claims fall under the arbitration clauses in the Note and U-4, these claims are all Member vs. Associated Person claims that must be submitted to FINRA for arbitration even in the absence of a written arbitration agreement. Since the Receiver chooses to ignore this requirement, the Nine Defendants are forced to ask this Court for appropriate relief.

III. ARGUMENT AND CITATION OF AUTHORITY

Motions to dismiss or to compel based on arbitration clauses are properly brought under Fed. R. Civ P. 12(b)(6) and/or 12(b)(3):

> [T]he existence of a valid arbitration clause does not technically deprive the Court of subject matter jurisdiction. It instead requires the Court to forego the exercise of jurisdiction in deference to the parties' contractual agreement to address in another forum those disputes which fall within the scope of the agreement to arbitrate...In determining whether the parties have agreed to arbitrate, there must be sufficient evidence that the parties consented to arbitration in an express agreement...The Court's function is a very limited one. It is confined to ascertaining whether the party seeking arbitration is making a claim which on its face is governed by the contract.

Liveware Publ'g, Inc. v. Best Software, Inc., 252 F. Supp. 2d 74, 78-79 (D. Del. 2003) (internal quotations and citations omitted); see also Lim v. Offshore Specialty Fabricators, Inc., 404 F.3d 898, 901-902 (5th Cir. 2005) (discussion that Fed. R. Civ. P. 12(b)(3) is proper motion for dismissal based on an arbitration clause). Here, there are not only valid applicable arbitration clauses, but also governing mandatory industry rules and regulations requiring arbitration of the Receiver's claims as well. All paths of analysis lead to dismissal of the Complaint against the Nine Defendants.

A. The Receiver stands in the shoes of SGC

For purposes of the claims brought against the Nine Defendants, the Receiver stands in the shoes of SGC. The Court must analyze the Receiver's standing to bring the claims in the Complaint as if such claims were being brought by SGC. "The receiver of a corporation is bound precisely as it is bound and occupies the relation to the stockholders that the corporation itself, if waging the suit in its own person, would occupy." Knauer v. Jonathon Roberts Fin. Group, Inc., 348 F.3d 230, 236 (7th Cir. 2003) (internal quotation marks and citation omitted); see also Javitch v. First Union Sec., Inc., 315 F.3d 619 (6th Cir. 2003) (finding that the Receiver had properly asserted claims belonging to the receivership entities). Here, the Receiver is vested with the power to pursue claims on behalf of SGC for the benefit of the receivership estate, and he clearly stands in the shoes

of SGC for that purpose. Accordingly, the Receiver is bound by any agreements between SGC and its former employees, and the FINRA rules and regulations that would otherwise control any disputes between SGC and its former employees.

B. The Receiver Must Arbitrate Claims Governed by Written Agreement

1. The Note requires Arbitration

In analyzing a motion to compel arbitration, Courts must consider two factors: (1) is there a valid agreement to arbitrate, and (2) is the dispute is within the scope of the agreement. Pennzoil Exploration & Prod. Co. v. Ramco Energy Ltd., 139 F.3d 1061, 1065 (5th Cir. 1998). If an arbitration clause is at issue, courts will presume that it is valid and enforceable unless shown otherwise. Also, courts usually resolve all doubtful questions of coverage of a dispute in favor of the arbitration agreement. Abram Landau Real Estate v. Benova, 123 F.3d 69, 72 (2d Cir. 1997); Moses H. Cone Mem'l Hosp. v. Mercury Const. Corp., 460 U.S. 1 (1983); Shearson/Am. Exp., Inc. v. McMahon, 482 U.S. 220 (1987). "Ambiguities as to the scope of the arbitration clause itself [are to be] resolved in favor of arbitration." Autonation Fin. Services Corp. v. Arain, 264 Ga. App. 755, 757 (2003); see also BellSouth Corp. v. Forsee, 265 Ga. App. 589 (2004) (FAA establishes that, as a matter of federal law, any doubts concerning scope of arbitrable issues should be resolved in favor of arbitration, whether problem at hand is construction of contract language itself, or allegation of waiver, delay, or like defense to arbitrability).

As detailed above, most of the movants signed an agreement with SGC that controlled the terms of the EFLs. In every Note agreement SGC and the former employee agreed that "… any controversy arising out of or relating to this Note…shall be submitted to and settled by arbitration…." This language is simple and capable of one interpretation. It

is presumed to be valid unless the Receiver can show otherwise. There is no dispute that SGC is claiming that the movants are required to pay back EFL money and that such a claim falls under the arbitration clause in the Note. Since the Receiver stands in the shoes of SGC for purposes of making claims against former employees, the arbitration clause must apply. It is troublesome that the Receiver had copies of all of the Notes prior to filing the Complaint, the applicable language in the Notes is clear, yet the Complaint was still filed with this Court.

Javitch is directly on point for this issue. Javitch v. First Union Sec., Inc., 315 F.3d 619 (6th Cir. 2003). The receiver in Javitch was appointed to take control of two related viatical companies that were allegedly involved in a scheme to defraud investors and funding companies. Id. at 621. The receiver was given the power to take necessary steps to preserve, protect, marshal, and recover assets for the benefit of the receivership estate. Id. at 621-622. In an effort to recover assets, the receiver sued four broker/dealers and three of their employees alleging that some receivership estate funds were diverted to these defendants. Id. at 622. The defendants filed a motion to compel arbitration on the grounds that their brokerage agreements with the viatical company clients contained arbitration clauses. Id. at 623. The Court found that the receiver was asserting claims that belonged to the receivership entities and was bound to arbitration clauses in the same way those entities would be bound. Id. at 625. On remand, the district court was charged with the duty of determining if the arbitration clauses were valid and if so whether or not the disputed matter fell within the scope of the clauses.

The situation in this case is virtually identical. The Receiver in this case has sued former employees in an attempt to recover funds paid to former employees in the form of

the aforementioned ELFs. He is alleging that those funds were wrongfully diverted to the former employees under unsubstantiated theories of fraudulent transfer and unjust enrichment. Identical to Javitch, there is a valid arbitration clause that specifically encompasses this dispute. The Receiver's claims to recover EFL funds must be dismissed, and the Receiver must be required to arbitrate those claims.

2. The U-4 forms require Arbitration

Also discussed above is the fact that the seven financial advisor movants were all required to sign the standard Form U-4 Uniform Application for Securities Industry Regulation or Transfer as a condition of their employment with SGC. The U-4, which was submitted to FINRA by SGC, states:

> "I agree to arbitrate any dispute, claim or controversy that may arise between me and my firm, or any other person, that is required to be arbitrated under the rules, constitutions, or by-laws of the SROs indicated in Section 4 (SRO REGISTRATION) as may be amended from time to time and that any arbitration award rendered against me may be entered as a judgment in any court of competent jurisdiction."

Again, we have an agreement between SGC and the Nine Defendants to arbitrate work-related disputes that arise between them.

Courts have routinely enforced arbitration agreements contained in Form U-4. See Ford v. Lehman Bros., Inc., 2007 WL 4437165 (S.D. Tex. Dec. 18, 2007); Perry v. Thomas, 482 U.S. 483, (1987); Mouton v. Metro. Life Ins. Co., 147 F.3d 453, 456 (5th Cir. 1998); Williams v. Cigna Fin. Advisors, Inc., 56 F.3d 656, 658-59 (5th Cir. 1995). "The Fifth Circuit has long-recognized that such U-4s can serve as the written agreement required by the [Federal Arbitration Act]." Wealth Rescue Strategies, Inc. v. Thompson, 2009 U.S. Dist. LEXIS 106989 (S.D. Tex. Nov. 17, 2009). Arbitration is required pursuant to the agreement contained within Form U-4 even in sexual harassment,

discrimination and retaliation claims under Title VII. Herko v. Metropolitan Life Ins. Co., 978 F. Supp. 141, 142 (W.D.N.Y. 1997). If that is the case, then certainly the arbitration clause in Form U-4 applies to any disputes between SGC, and therefore the Receiver, and former employees regarding loans, commission payments, bonuses, severance payments, etc. The Receiver is seeking disgorgement of *compensation* from the Nine Defendants, upon which they have already paid taxes, *paid by SGC.* The Nine Defendants' right to demand arbitration and the Receiver's obligation to comply with such a demand does not change merely because the interests of SGC are now represented by the Receiver. For these reasons and the reasons cited in subsection (A)(1) above, all of the Receiver's claims against the Nine Defendants must be dismissed, and the Receiver must be required to arbitrate those claims.

C. The Receiver Must Arbitrate All Claims Governed by FINRA Regulation

"Even if there was not a clear contractual agreement to arbitrate, this court has recognized that in the securities context recent cases . . . almost uniformly hold that even if there is no direct written agreement to arbitrate . . . , the [NASD] Code serves as a sufficient agreement to arbitrate, binding its members to arbitrate a variety of claims...Members of FINRA are bound through the NASD Code of Arbitration to arbitrate disputes through FINRA arbitration." Sparks v. Saxon Invs., LLC, 2009 U.S. Dist. LEXIS 79184 (D. Utah Sept. 2, 2009) (internal quotations and citations omitted). SGC was a FINRA member and the Receiver stands in SGC's shoes for purposes of the claims asserted against the Nine Defendants. All Nine Defendants are "Associated Persons" as that term is defined by the FINRA Code. The FINRA Code is also quite clear that "a dispute must be arbitrated under the Code if the dispute arises out of the

business activities of a member or an associated person and is between or among: Members; Members and Associated Persons; or Associated Persons." Even if this Court found that the arbitration clauses in the Note and U-4 were somehow unenforceable, the Receiver is still obligated to arbitrate all claims against the Nine Defendants. The Complaint and claims against the Nine Defendants should be dismissed, and the Receiver should be compelled to arbitrate the claims pursuant to the FINRA Code.

IV. CONCLUSION

The Nine Defendants further note that due process requires that each of their nine separate and factually unique claims be heard separately. The Receiver's consistently vague group pleading attempts to make this case all bath water and no babies. The required FINRA arbitrations will provide each defendant their right to be heard individually. Based on the argument and authority set forth above, the Complaint against the Nine Defendants should be dismissed, the Receiver should be compelled to arbitrate said claims against the Nine Defendants pursuant to the arbitration clauses in the Note, Form U-4, and the FINRA Code of Arbitration for Industry Disputes, and this Court should award the Nine Defendants their attorneys' fees associated with this Motion.

This 15th day of January 2010,

Respectfully submitted

s/ Jason W. Graham
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CERTIFICATE OF SERVICE

I hereby certify that on this 15th day of January, 2010, I electronically filed the foregoing Brief In Support Of Motion Of Defendants Julian "Brad" Bradham, Nolan Farhy, Blanca Fernandez, Virgil Harris, Nancy Huggins, Lou Schaufele, Harvey Schwartz, Steve Slewitzke, and Eric Urena To Dismiss And To Compel Arbitration with the clerk of the court for the U. S. District Court, Northern District of Texas, using the electronic case filing system of the Court.

s/ Robert L. Wright
Robert L. Wright

Appendix 21

Stanford Group Company
Promissory Note
Forgivable Loan

(A) Name of Borrower	(B) Amount of Loan (Principal Sum)	(C) First Annual Payment Due Date
Blanca Fernandez	$50,000.00	11/28/2006

In consideration of a loan from Stanford Group Company ("the Company"), receipt of which is hereby acknowledged, the undersigned whose name appears in item "A" above ("the Borrower") hereby promises to pay the Company the principal sum named in item "B" above.

The Borrower hereby agrees to the following terms and conditions:

1. **Payment:** The loan shall be payable to the Company on an annual basis in four (4) equal payments, commencing on the first payment date indicated above in item "C", .
2. **Indemnification:** The Borrower further promises to pay and indemnify the Company for all expenses incurred, including attorney's fees, in connection with the collection of any amount due under this Note. The maximum aggregate amount the Borrower may be liable for under this paragraph (2) shall be the greater of the actual expenses incurred by the Company or 15% of the unpaid balance of the Note at any time any proceedings are instituted for collection.
3. **Default:** In the event that the Borrower resigns from the employ of the Company, or any subsidiary or affiliate thereof, or is terminated for any reason, the balance due hereunder will become immediately due and payable, together with interest accruing from the date below at the Federal short-term rate indicated under Internal Revenue Code Section 1274(d), and/or any successor section pertaining to rates on short-term obligations. In addition, the Borrower shall be deemed to be in default hereunder if the Borrower is adjudicated a bankrupt, makes an assignment for the benefit of creditors or files a petition for relief under the Bankruptcy Act.
4. **Waivers:** The Borrower hereby waives demand for payment, notice of dishonor and any and all other notices and demands in connection with the enforcement of this Note. No delay by the holder in exercising any power or right shall operate as a waiver of any power or right. No waiver or modification of the terms of this Note shall be valid unless in writing, signed by the holder of this Note and then only to the extent set forth.
5. **Deductions:** The Company shall have the right, without notice, to withhold any amounts payable by the Company to the Borrower, as commissions or otherwise, or to deduct those monies from any security or commodity account the Borrower maintains with the Company, or from any amounts payable under any non-qualified deferred compensation or similar arrangement sponsored by the Company, and to apply such withheld amounts to satisfy the indebtedness due under this Note. Borrower hereby authorizes and consents to the aforementioned deductions.
6. **Forgiveness:** Notwithstanding the foregoing, should the undersigned be employed as a full time employee of the Company on the date that each annual payment is due, the payment due as of that date shall be forgiven. Forgiveness shall be on an annual basis only. It is understood that the loan shall not be forgiven on a pro-rata basis. All tax related questions are to be referred to the Borrower's private accountant.
7. **Governing Law:** This note shall be governed by the laws of the State of Texas.
8. **Arbitration:** Borrower hereby agrees that any controversy arising out of or relating to this Note, or default on this Note, shall be submitted to and settled by arbitration pursuant to the constitution, by-laws, rules and regulations of the National Association of Securities Dealers (NASD) in the local area of the principal office.
9. **Successors:** This Promissory Note shall inure to the benefit of the Company, its affiliates, and any successor in interest to the business of the Company, whether through merger, acquisition, sale or other transfer.
10. **Modifications:** This Promissory Note may not be altered or modified in any way unless it is in writing and signed by the parties hereto.

TO BE SIGNED IN THE PRESENCE OF A NOTARY PUBLIC:

Signature of the Borrower: Blanca E Fernandez

Date: 11/28/05

Social Security Number: 073-54-4226

Branch Location: Miami

State of: Florida

County of: DADE

Subscribed and sworn to before me on: 11/28/05 (Month/Date/Year)

Seal of Notary Public:

NOTARY PUBLIC STATE OF FLORIDA
OFFICIAL NOTARY SEAL
MARIANA MEDEIROS
COMMISSION NUMBER
DD102495
MY COMMISSION EXPIRES
MAR. 24, 2009

Signature of Notary Public

EXHIBIT
A

Stanford Group Company
Promissory Note
Forgivable Loan

(A) Name of Borrower	(B) Amount of Loan (Principal Sum)	(C) First Annual Payment Due Date
Steve Siewitzke	$250,000.00	

In consideration of a loan from Stanford Group Company ("the Company"), receipt of which is hereby acknowledged, the undersigned whose name appears in item "A" above ("the Borrower") hereby promises to pay the Company the principal sum named in item "B" above.
The Borrower hereby agrees to the following terms and conditions:

1. **Payment:** The loan shall be payable to the Company on an annual basis in seven (7) equal payments, commencing on the first payment date indicated above in item "C", .
2. **Indemnification:** The Borrower further promises to pay and indemnify the Company for all expenses incurred, including attorney's fees, in connection with the collection of any amount due under this Note. The maximum aggregate amount the Borrower may be liable for under this paragraph (2) shall be the greater of the actual expenses incurred by the Company or 15% of the unpaid balance of the Note at any time any proceedings are instituted for collection.
3. **Default:** In the event that the Borrower resigns from the employ of the Company, or any subsidiary or affiliate thereof, or is terminated for any reason, the balance due hereunder will become immediately due and payable, together with interest accruing from the date below at the Federal short-term rate indicated under Internal Revenue Code Section 1274(d), and/or any successor section pertaining to rates on short-term obligations. In addition, the Borrower shall be deemed to be in default hereunder if the Borrower is adjudicated a bankrupt, makes an assignment for the benefit of creditors or files a petition for relief under the Bankruptcy Act.
4. **Waivers:** The Borrower hereby waives demand for payment, notice of dishonor and any and all other notices and demands in connection with the enforcement of this Note. No delay by the holder in exercising any power or right shall operate as a waiver of any power or right. No waiver or modification of the terms of this Note shall be valid unless in writing, signed by the holder of this Note and then only to the extent set forth.
5. **Deductions:** The Company shall have the right, without notice, to withhold any amounts payable by the Company to the Borrower, as commissions or otherwise, or to deduct those monies from any security or commodity account the Borrower maintains with the Company, or from any amounts payable under any non-qualified deferred compensation or similar arrangement sponsored by the Company, and to apply such withheld amounts to satisfy the indebtedness due under this Note. Borrower hereby authorizes and consents to the aforementioned deductions.
6. **Forgiveness:** Notwithstanding the foregoing, should the undersigned be employed as a full time employee of the Company on the date that each annual payment is due, the payment due as of that date shall be forgiven. Forgiveness shall be on an annual basis only. It is understood that the loan shall not be forgiven on a pro-rata basis. All tax related questions are to be referred to the Borrower's private accountant.
7. **Company Insurance:** The Borrower acknowledges and agrees that in the event of the death of the Borrower, the proceeds of any life insurance provided by the Company or paid for by the Company including any supplemental insurance shall be applied first to repay any balance remaining unpaid of any advances made by the Company to such Borrower pursuant to this Promissory Note.
8. **Governing Law:** This note shall be governed by the laws of the State of Texas.
9. **Arbitration:** Borrower hereby agrees that any controversy arising out of or relating to this Note, or default on this Note, shall be submitted to and settled by arbitration pursuant to the constitution, by-laws, rules and regulations of the National Association of Securities Dealers (NASD) in the local area of the principal office.
10. **Successors:** This Promissory Note shall inure to the benefit of the Company, its affiliates, and any successor in interest to the business of the Company, whether through merger, acquisition, sale or other transfer.
11. **Modifications:** This Promissory Note may not be altered or modified in any way unless it is in writing and signed by the parties hereto.

TO BE SIGNED IN THE PRESENCE OF A NOTARY PUBLIC:

Signature of the Borrower _____ Date 2/2/06

Social Security Number 387-84-9410 Branch Location _____

Seal of Notary Public:

State of _____

County of _____

Subscribed and sworn to before me on _____ (Month/Date/Year)

_____ (Signature of Notary Public)

Stanford Group Company
Promissory Note
Forgivable Loan

(A) Name of Borrower	(B) Amount of Loan (Principal Sum)	(C) First Annual Payment Due Date
Harvey M. Schwartz	$519,364.00	1-20-2006

In consideration of a loan from Stanford Group Company ("the Company"), receipt of which is hereby acknowledged, the undersigned whose name appears in item "A" above ("the Borrower") hereby promises to pay the Company the principal sum named in item "B" above.

The Borrower hereby agrees to the following terms and conditions:

1. **Payment:** The loan shall be payable to the Company on an annual basis in five (5) equal payments, commencing on the first payment date indicated above in item "C".
2. **Indemnification:** The Borrower further promises to pay and indemnify the Company for all expenses incurred, including attorney's fees, in connection with the collection of any amount due under this Note. The maximum aggregate amount the Borrower may be liable for under this paragraph (2) shall be the greater of the actual expenses incurred by the Company or 15% of the unpaid balance of the Note at any time any proceedings are instituted for collection.
3. **Default:** In the event that the Borrower resigns from the employ of the Company, or any subsidiary or affiliate thereof, or is terminated for any reason, the balance due hereunder will become immediately due and payable, together with interest accruing from the date below at the Federal short-term rate indicated under Internal Revenue Code Section 1274(d), and/or any successor section pertaining to rates on short-term obligations. In addition, the Borrower shall be deemed to be in default hereunder if the Borrower is adjudicated a bankrupt, makes an assignment for the benefit of creditors or files a petition for relief under the Bankruptcy Act.
4. **Waivers:** The Borrower hereby waives demand for payment, notice of dishonor and any and all other notices and demands in connection with the enforcement of this Note. No delay by the holder in exercising any power or right shall operate as a waiver of any power or right. No waiver or modification of the terms of this Note shall be valid unless in writing, signed by the holder of this Note and then only to the extent set forth.
5. **Deductions:** The Company shall have the right, without notice, to withhold any amounts payable by the Company to the Borrower as commissions or otherwise, or to deduct those monies from any security or commodity account the Borrower maintains with the Company, or from any amounts payable under any non-qualified deferred compensation or similar arrangement sponsored by the Company, and to apply such withheld amounts to satisfy the indebtedness due under this Note. Borrower hereby authorizes and consents to the aforementioned deductions.
6. **Forgiveness:** Notwithstanding the foregoing, should the undersigned be employed as a full time employee of the Company on the date that each annual payment is due, the payment due as of that date shall be forgiven. Forgiveness shall be on an annual basis only. It is understood that the loan shall not be forgiven on a pro-rata basis. All tax related questions are to be referred to the Borrower's private accountant.
7. **Governing Law:** This note shall be governed by the laws of the State of Texas.
8. **Arbitration:** Borrower hereby agrees that any controversy arising out of or relating to this Note, or default on this Note, shall be submitted to and settled by arbitration pursuant to the constitution, by-laws, rules and regulations of the National Association of Securities Dealers (NASD) in the local area of the principal office.
9. **Successors:** This Promissory Note shall inure to the benefit of the Company, its affiliates, and any successor in interest to the business of the Company, whether through merger, acquisition, sale or other transfer.
10. **Modifications:** This Promissory Note may not be altered or modified in any way unless it is in writing and signed by the parties hereto.

TO BE SIGNED IN THE PRESENCE OF A NOTARY PUBLIC:

Signature of the Borrower: [signature] Date: 1/20/05

Social Security Number: 136 60 7084 Branch Location: Miami

State of Florida

County of Miami-Dade

Subscribed and sworn to before me on 01/20/05 (Month/Date/Year)

Seal of Notary Public:

[signature]
Signature of Notary Public

SANDRA L. AMAYA
MY COMMISSION # DD192515
EXPIRES: MARCH 11, 2007