

ATTORNEY GENERAL OF THE STATE OF NEW YORK  
BUREAU OF INVESTMENT PROTECTION

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In the Matter of

Veras Capital Master Fund, VEY Partners Master Fund,  
Veras Investment Partners, LLC, Kevin D. Larson, and  
James R. McBride,

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**ASSURANCE OF DISCONTINUANCE  
PURSUANT TO EXECUTIVE LAW § 63(15)**

WHEREAS, pursuant to the provisions of the Martin Act (Article 23-A of the General Business Law), Eliot Spitzer, Attorney General of the State of New York (hereinafter, the "Attorney General"), commenced an investigation in 2003 into the practices, procedures and conduct of Veras Capital Master Fund ("VCM"), VEY Partners Master Fund ("VEY"), Veras Investment Partners, LLC ("VIP") (collectively "Veras"), Kevin D. Larson ("Larson"), and James R. McBride ("McBride"), during the period January 2002 through September 2003 respecting market timing and late trading mutual funds by Veras;

WHEREAS, the Investigation was conducted in cooperation with a parallel investigation of Veras by the U.S. Securities and Exchange Commission ("SEC") in connection with which the SEC is issuing an Order Instituting Administrative and Cease and Desist Proceedings against Veras (the "SEC Order");

WHEREAS, VCM and VEY operated as hedge funds, VIP provided advisory service to VCM and VEY, and Larson and McBride were owners and managing members of VIP;

WHEREAS, in the course of the Investigation, numerous witnesses were interviewed and/or deposed and extensive documentary evidence was reviewed;

WHEREAS, Veras and the Individual Respondents fully cooperated in the Investigation by producing documentary evidence and witnesses and identifying evidence relevant to the Investigation;

WHEREAS, as set forth in the Attorney General's Findings made below, the Attorney General found that certain practices by Veras and the Individual Respondents have violated the Martin Act, § 349 of the General Business Law, and Executive Law § 63 (12);

WHEREAS, Veras and the Individual Respondents have agreed to make certain payments and the Individual Respondents have agreed to certain prospective relief;

WHEREAS, the Attorney General finds the following sanctions appropriate and in the public interest and Veras and the Individual Respondents, without admitting or denying the Attorney General's Findings made below, agree to the sanctions provided herein;

NOW THEREFORE, the Attorney General, based upon the Investigation, makes the following Findings:

## FINDINGS

1     **VCM** is a Texas general partnership that operated as one of the Veras hedge funds during the relevant time. The VCM general partners are three feeder funds: (1) Veras Capital Partners, LP, (2) Veras Capital Partners (QP), LP, and (3) Veras Capital Partners Offshore, Ltd. The limited partners to each feeder fund are the Veras hedge fund investors.

2     **VEY** is a Texas general partnership that operated as one of the Veras hedge funds from approximately May 2002 through September 2003. The VEY general partners are two feeder funds: (1) Veras Enhanced Yield (QP), LP and (2) Veras Enhanced Yield Offshore, Ltd. The limited partners to each feeder fund are the Veras hedge fund investors.

3.     **VIP** a Texas limited liability company, provided investment advisory services to the Veras hedge funds. Larson and McBride each were owners and managing members of VIP. VIP was registered with the Texas Securities Board as an investment adviser. On February 24, 2004, the Texas Securities Board revoked its registration by consent.

4.     **Larson** is 38 years old and resides in Sugar Land, Texas. Larson is an owner and managing member of VIP. During the relevant time, Larson was registered with the Texas Securities Board as an investment adviser representative. On February 24, 2004, the Texas Securities Board revoked Larson's registration by consent. Larson is licensed by the National Association of Securities Dealers ("NASD") as a Uniform Investment Adviser (Series 65).

5. **McBride** is 39 years old and resides in Sugar Land, Texas. McBride is an owner and managing member of VIP. During the relevant time, McBride was registered with the Texas Securities Board as an investment adviser representative. On February 24, 2004, the Texas Securities Board revoked McBride's registration by consent.

6 The findings of fact contained in paragraphs 7 through 18 of the SEC Order (the "Findings") are incorporated by reference herein.

7 The Attorney General has jurisdiction over this matter pursuant to the Martin Act (Article 23-A of the General Business Law) and Executive Law § 63.

8 The acts and practices of Veras and the Individual Respondents described in the Findings violated the Martin Act, Article 23-A of the General Business Law, § 349 of the General Business Law, and § 63(12) of the Executive Law.

#### **AGREEMENT**

IT NOW APPEARING THAT Veras and the Individual Respondents desire to settle and resolve the Investigation without admitting or denying the Attorney General's Findings, which Findings are not binding on any other person or entity in this or any other proceeding, or on Veras and the Individual Respondents in any other proceeding to which the Attorney General is not a party, the Attorney General, Veras and the Individual Respondents hereby enter into this Assurance of Discontinuance, pursuant to Executive Law § 63(15), and agree as follows:

I. **Affirmative Relief**

A. **Disgorgement and/or Restitution and Civil Penalty**

1. Pursuant to paragraph IV.D. of the SEC Order, Veras shall pay \$35,554,903 in disgorgement and/or restitution and \$645,585 in prejudgment interest, and Larson and McBride shall each pay \$750,000 in civil money penalties. The foregoing payments shall be remitted to and administered by the SEC in accordance with the SEC Order. Amounts ordered to be paid as civil money penalties pursuant to this Assurance of Discontinuance (i.e. pursuant to the terms of the SEC Order) shall be treated as penalties paid to the government for all purposes, including tax purposes.

2. Veras and the Individual Respondents agree that they shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to Paragraph I.A.1. of this Assurance of Discontinuance. Nothing in this Assurance of Discontinuance shall: (i) limit or impair the rights of persons other than Veras or the Individual Respondents under any applicable insurance policy; (ii) prevent Veras or the Individual Respondents from asserting any claims, including any claims with respect to any or all of the amounts payable pursuant to Paragraph I.A.1., against any persons or entities to the extent that such claims are based on the negligence, malpractice, breach of a duty, misrepresentation, fraud, malfeasance and/or other tortious or wrongful conduct of such person or entity; or (iii) limit or modify any indemnification or allocation right among Respondents and their affiliates, including those encompassed by paragraph II.C.1. *infra*.

**B. General Relief**

1. Veras and the Individual Respondents admit the jurisdiction of the Attorney General over Veras and the Individual Respondents in connection with the subject matter of this Investigation.

2. Pursuant to paragraph IV.B. of the SEC Order, Larson and McBride will not associate with any investment adviser, or serve or act as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter for eighteen months from the execution of this Assurance of Discontinuance.

3. A violation of any provision of this Assurance of Discontinuance by Veras or the Individual Respondents shall constitute prima facie proof of violation of the Martin Act, General Business Law § 349 and Executive Law § 63(12) with respect to that Respondent in any civil action or proceeding hereafter commenced by the Attorney General.

**II. Other Provisions**

**A. Scope Of This Assurance of Discontinuance**

1. This Assurance of Discontinuance concludes the Investigation brought by the Attorney General and any action the Attorney General could commence against Veras, any of its current affiliates or the Individual Respondents arising from or relating to the subject matter of the Investigation; provided, however, that nothing contained in this Assurance of

Discontinuance shall be construed to cover claims of any type by any other state agency or any claims that may be brought by the Attorney General to enforce Veras's or the Individual Respondents' obligations arising from or relating to the provisions contained in this Assurance of Discontinuance. This Assurance of Discontinuance shall not prejudice, waive or affect any claims, rights or remedies of the Attorney General with respect to any person other than Veras, any of its current affiliates or the Individual Respondents, all of which claims, rights, and remedies are expressly reserved.

2. If Veras or an Individual Respondent does not make the payments as provided in Section I.A. of this Assurance of Discontinuance (i.e. pursuant to the SEC Order) the Attorney General may terminate this Assurance of Discontinuance as to the defaulting party, at his sole discretion, upon written notice to the defaulting party, followed by the defaulting party's failure to cure such breach within a reasonable time, and Veras and the Individual Respondents agree that any statute of limitations or other time related defenses applicable to the subject of the Investigation and any claims arising from or relating thereto are tolled from and after the date hereof. In the event of such termination, Veras and the Individual Respondents expressly agree and acknowledge that this Assurance of Discontinuance shall in no way bar or otherwise preclude the Attorney General from commencing, conducting or prosecuting any investigation, action or proceeding, however denominated, related to the Investigation, against the defaulting person or entity or from using in any way any statements, documents or other materials produced or provided by Veras or the Individual Respondents after commencement of the

Investigation, including, without limitation, any statements, documents or other materials provided for purposes of settlement negotiations.

3. For any person or entity not a party hereto, this Assurance of Discontinuance does not prohibit, limit, or create any rights, remedies, or liabilities. It also does not limit or prohibit any defenses of Veras, its current or former affiliates, the Individual Respondents or their respective heirs, successors, executors, administrators and assigns to claims asserted by any person or entity not a party hereto.

4. This Assurance of Discontinuance is not intended by the Attorney General to subject Veras or any of its affiliates to any disqualifications under the laws of any state, the District of Columbia, Puerto Rico or territory (collectively "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions.

5. The SEC Order, this Assurance of Discontinuance, and the order of any other State in related proceedings against Veras or its affiliates (collectively, the "Settlement Documents") shall not disqualify Veras or its affiliates from any business that they otherwise are qualified, licensed or permitted to perform under the applicable law of the State of New York, and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that might arise from the Settlement Documents are hereby waived.

**B. Cooperation**

1. Veras, the Individual Respondents, Veras's current affiliates, and Veras's successors, assigns, and/or purchasers of all or substantially all its assets (the "Veras Entities") agree to cooperate fully and promptly with the Attorney General with regard to any investigation, litigation or other proceeding initiated by the Attorney General or to which the Attorney General is a party, whether pending or subsequently initiated, relating to market timing or late trading. The Veras Entities shall use their best efforts to ensure that all current and former officers, directors, trustees, agents and employees of the Veras Entities also fully and promptly cooperate with the Attorney General.

2. Cooperation shall include, without limitation:

(a) production, voluntarily and without service of subpoena, of all documents or other tangible evidence requested by the Attorney General and any compilations or summaries of information or data that the Attorney General requests be prepared, with the exception of any information or documents with respect to which the Veras Entities have a statutory or contractual obligation of confidentiality to persons or entities who are not parties to this Assurance of Discontinuance ("Confidential Information") and information or documents protected by the attorney-client and/or work product privileges ("Privileged Information");

(b) without the necessity of a subpoena, having the then-current officers, directors, and employees of the Veras Entities attend any proceedings in New York State or elsewhere at which the presence of any such persons is requested by the Attorney

General and having such then-current officers, directors, and employees answer any and all inquiries that may be put by the Attorney General to any of them at any proceedings or otherwise (“proceedings” include, but are not limited to, any meetings, interviews, depositions, hearings, trials or other proceedings), except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information;

(c) the Veras Entities using their best efforts to cause then-current and former trustees and agents, as well as former officers, directors, and employees of the Veras Entities to attend any proceedings in New York State or elsewhere at which the presence of any such persons is requested by the Attorney General and to answer any and all inquiries that may be put by the Attorney General to any of them at any proceedings or otherwise, except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information;

(d) fully, fairly and truthfully disclosing all information and producing all records and other evidence in their possession relevant to all inquiries made by the Attorney General, except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information;

(e) making Veras’s outside counsel reasonably available to provide comprehensive presentations concerning any internal investigation relating to all matters in this Assurance of Discontinuance and to answer questions, except to the extent to which such presentations or questions call for the disclosure of Confidential Information or Privileged Information.

3. All communications relating to cooperation pursuant to this Assurance of Discontinuance may be made to the Veras Entities' attorneys as follows: Paul A. Leder, Esq., Richards Spears Kibbe & Orbe LLP, 1775 Eye Street NW, Washington, DC 20006.

4. In the event defendants, collectively or individually, fail to comply with this section of the Assurance, the Attorney General shall be entitled to specific performance in addition to any other remedies in the Assurance or otherwise.

**C. Miscellaneous Provisions**

1. Except as otherwise required by applicable law, or by presently existing written agreement or instrument, including, but not limited to, presently existing articles of incorporation and presently existing bylaws of Veras and/or its affiliates, Veras shall not make any payments of indemnification or allowances of expenses respecting "market timing" and "late trading" transactions referred to in Paragraphs 7-18 of the SEC Order to any person, including, without limitation, current or former directors, officers, employees or agents. However, any such payments by Veras required by applicable law or by such presently existing written agreements (as described in this Paragraph II.C.), shall be payable at the time and in the manner of Veras's choosing.

2. This Assurance of Discontinuance and any dispute related thereto shall be governed by the laws of the State of New York without regard to any conflicts of laws principles.

3. No failure or delay by the Attorney General in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial

exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein shall be cumulative.

4. Veras and the Individual Respondents consent to the jurisdiction of the Attorney General in any proceeding or action to enforce this Assurance of Discontinuance.

5. Veras and the Individual Respondents enter into this Assurance of Discontinuance voluntarily and represent that no threats, offers, promises or inducements of any kind have been made by the Attorney General or any member, officer, employee, agent or representative of the Attorney General to induce Veras or the Individual Respondents to enter into this Assurance of Discontinuance.

6. Veras and the Individual Respondents agree not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in this Assurance of Discontinuance or creating the impression that this Assurance of Discontinuance is without factual basis. Nothing in this Paragraph affects Veras's and the Individual Respondents': (a) testimonial obligations or (b) right to take legal or factual positions in any legal or administrative proceeding.

7. This Assurance of Discontinuance may be changed, amended or modified only by a writing signed by all parties hereto.

8. This Assurance of Discontinuance constitutes the entire agreement between the Attorney General, Veras and the Individual Respondents and supersedes any prior communication, understanding or agreement, whether written or oral, concerning the subject matter of this Assurance of Discontinuance.

9. This Assurance of Discontinuance shall be binding upon Veras, the Individual Respondents, and Veras's successors, assigns, and/or purchasers of all or substantially all its assets ("Successors"), provided, however, that any Successor to Veras may petition the Attorney General and obtain relief from such undertakings.

10. This Assurance of Discontinuance shall be effective and binding only when this Assurance of Discontinuance is signed by all parties. This Assurance of Discontinuance may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one instrument.

WHEREFORE, the following signatures are affixed hereto on the dates set forth below.

Dated: October 7, 2005

Veras Capital Master Fund  
VEY Partner Master Fund

By: James R. McBride  
Managing Member of Veras Investment Partners, LLC, general partner of Veras Investment Group, LP, agent and attorney-in-fact of the Master Funds

Veras Investment Partners, LLC

By: James R. McBride  
Managing Member

Kevin D. Larson  
Kevin D. Larson

James R. McBride  
James R. McBride

ELIOT SPITZER,  
Attorney General of the State of New York

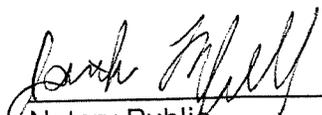
By: \_\_\_\_\_  
Roger L. Waldman  
Senior Enforcement Counsel  
Investment Protection Bureau

**ACKNOWLEDGMENT**

STATE OF Texas )  
COUNTY OF Fr. Bend

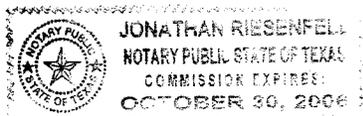
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On this 7 day of October, 2005 before me personally came James R. McBride, known to me, who, being duly sworn by me, did depose and say that he is a Managing Member of Veras Investment Partners, LLC, general partner of Veras Investment Group, LP, agent and attorney-in-fact of VEY Partners Master Fund, the entity described in the foregoing Assurance of Discontinuance, is duly authorized by VEY Partners Master Fund to execute the same, and that he or she signed his name in my presence by like authorization.

  
\_\_\_\_\_  
Notary Public

My commission expires: Oct 30, 2006

Dated: Oct 7, 2005



**ACKNOWLEDGMENT**

STATE OF Texas ,  
COUNTY OF A. Bend )

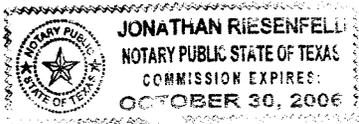
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On this 7 day of October, 2005 before me personally came James R. McBride, known to me, who, being duly sworn by me, did depose and say that he is a Managing Member of Veras Investment Partners, LLC, general partner of Veras Investment Group, LP, agent and attorney-in-fact of Veras Capital Master Fund, the entity described in the foregoing Assurance of Discontinuance, is duly authorized by Veras Capital Master Fund to execute the same, and that he signed his name in my presence by like authorization.

  
\_\_\_\_\_  
Notary Public

My commission expires: Oct 30, 2006

Dated: Oct 7, 2005



**ACKNOWLEDGMENT**

STATE OF TEXAS )  
COUNTY OF Ft. Bend )

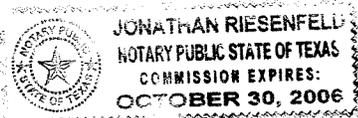
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On this 5 day of October, 2005 before me personally came James McBride known to me, who, being duly sworn by me, did depose and say that he is a Managing Member of Veras Investment Partners, LLC, the entity described in the foregoing Assurance of Discontinuance, is duly authorized by Veras Investment Partners, LLC to execute the same, and that he signed his name in my presence by like authorization.

Jonathan Riesenfeld  
Notary Public

My commission expires: Oct 30, 2006

Dated: Oct 7, 2005



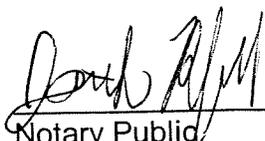
**ACKNOWLEDGMENT**

STATE OF Texas )

:ss.

COUNTY OF Ft. Bend )

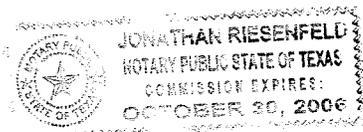
On this 2 day of October, 2005 before me personally came Kevin D. Larson, known to me, who, being duly sworn by me, did depose and say that he signed his name in my presence by like authorization.



Notary Public

My commission expires: Oct 30, 2006

Dated: Oct 30, 2005

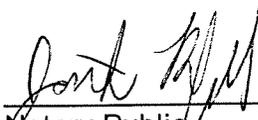


**ACKNOWLEDGMENT**

STATE OF Texas )  
COUNTY OF As. Bend )

:ss.

On this 7 day of October, 2005 before me personally came James R. McBride, known to me, who, being duly sworn by me, did depose and say that he signed his name in my presence by like authorization.

  
\_\_\_\_\_  
Notary Public

My commission expires: Oct 30, 2006

Dated: Oct 7, 2005

