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If you are reading this than I will have already punished myself for my transgressions and this is my last confession.

I have committed fraud. For this I feel constant and intense guilt. I am very remorseful that my greatest transgressions have been to my fellow man. Through a scheme of using false bank statements I have been able to embezzle millions of dollars from customer accounts at Peregrine Financial Group, Inc. The forgeries started nearly twenty years ago and have gone undetected until now. I was able to conceal my crime of forgery by being the sole individual with access to the US Bank accounts held by PFG. No one else in the company ever saw an actual US Bank statement. The Bank statements were always delivered directly to me when they arrived in the mail. I made counterfeit statements within a few hours of receiving the actual statements and gave the forgeries to the accounting department.

The forgeries started after I was in a battle with the Kansas City Commodity Futures Trading Commission's office. I was specifically attacked and harassed by CFTC's Branch Manager Robert Agnew. The reason for his vindictive actions was that I appear to have embarrassed him!

In the winter of 1993, Agnew performed a routine audit of the Iowa based headquarters of PFG. During the audit Agnew claimed I was in violation of the rules regarding the way customer funds can be invested. I asked to see the rules and he gave me a copy of them. I took the rules to the Bank where PFG's customer funds were deposited, (at that time it was Firststar Bank, which eventually became US Bank). The Bank's legal department examined the rules and soon told me that, in their opinion, there was no way they could comply with these rules. I was somewhat surprised to hear this since I knew of other firms investing customer funds the same fashion as I was doing. So I talked to some of my peers and even to the compliance department of the Chicago Mercantile Exchange. I discovered that Agnew had given me very outdated rules! New rules regarding the investment of customer funds had been written and had been in force for quite some time. I gave the new rules to the people at the Bank and their near immediate response was that they would have no problem complying.

When I told Agnew that he had given me the outdated rules, he was livid! He apparently didn't like being told that he was wrong. During the ensuing 5 months he and his team performed 6 onsite audits of PFG, until they found a technical violation.

We were always careful to have adequate regulatory capital in PFG's accounts at the end of each month. Because at the end of each month we were required to report our financials to the Regulators and we wanted to make sure that we were showing adequate capital on the report. Agnew was able to show that, in a few instances, sometime prior to our addition of capital at the end of the month we had already fallen below the required amount. So he was able to prove that we were below the capital requirements for a couple days prior to our addition of capital. He claimed that we failed to file notice to the CFTC immediately when the breach occurred. The CFTC decided not to pursue PFG with a formal complaint after negotiations with our Attorney but we knew we would be under heightened scrutiny. We knew we would need to maintain a higher level of capitalization.



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It was with this encounter with CFTC's Agnew that I discovered that the Industry's regulators often used audits of Firms as punishment and for retaliation. And I saw for the first time the mean spirited nature of the Industry's Regulators.

The cost of an Attorney and the requirement to maintain a greater capitalization pushed us into a financial crisis, I had no access to additional capital and I was forced into a difficult decision: Should I go out of business or cheat? I guess my ego was too big to admit failure. So I cheated, I falsified the very core of the financial documents of PFG, the Bank Statements. At first I had to make forgeries of both the Firststar Bank Statements and the Harris Bank Statements. When I choose to close the Harris Account I only had to falsify the Firststar statements. I also made forgeries of official letters and correspondence from the bank, as well as transaction confirmation statements.

Using a combination of Photo Shop, Excel, scanners, and both laser and ink jet printers I was able to make very convincing forgeries of nearing every document that came from the Bank. I could create forgeries very quickly so no one suspected that my forgeries were not the real thing that had just arrived in the mail.

With careful concealment and blunt authority I was able to hide my fraud from others at PFG. PFG grew out of a one man shop, a business I started in the basement of my home. As I added people to the company everyone knew I was the guy in charge. If anyone questioned my authority I would simply point out that I was the sole shareholder. I established rules and procedures as each new situation arose. I ordered that US Bank statement were to be delivered directly to me unopened, to make sure no one was able to examine an actual US Bank Statement. I was also the only person with online access to PFG's account using US Bank's online portal. On US Bank side, I told representatives at the Bank that I was the only person they should interface with at PFG.

When it became a common practice for Certified Auditors and the Field Auditors of the Regulators to mail Balance Confirmation Forms to Banks and other entities holding customer funds I opened a post office box. The box was originally in the name of Firststar Bank but was eventually changed to US Bank. I put the address "PO Box 706, Cedar Falls, IA 50613-0030" on the counterfeit Bank Statements. When the auditors mailed Confirmation Forms to the Bank's false address, I would intercept the Form, type in the amount I needed to show, forge a Bank Officer's signature and mail it back to the Regulator or Certified Auditor.

When online Banking became prevalent I learned how to falsify online Bank Statements and the Regulators accepted them without question.

It was relatively simple to deceive the Regulators during their Annual Audits since their Audit Modules guided them to find a number, tick a box, tie out totals, etc. They counted on the mailed back Bank Balance Confirmations to detect any shortfall in cash balance totals. They had no way to detect a counterfeit bank statement. They were actually distracted by the own agenda — to catch Firms unknowingly violating regulations. They knew they had a better chance to gain a "gotcha" in the areas where the "letter of the law" was desecrated by their constantly evolving interpretations. If the Firm didn't interpret a rule the same way as the Regulator was currently interpreting it then the Firm was



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violating the rule, even though the Firm was not in violation under a previous interpretation of the same rule.

Earlier I said I felt a great deal of guilt and remorse for my transgressions. I feel particularly bad for the damage I have done to my family, friends and loved ones. Many have counted on me to be the "good guy" and I know I am an enormous disappointment. I am extremely sorry that my son ever got involved with this business. I know he will feel betrayed, deceived and disillusioned. I know with his well-educated business mind he can't possibly understand how I could do such a horrible, deceitful thing as to be dishonest in business.

I know PFG's Chief Compliance Officer and Chief Financial Officer will feel particularly betrayed. They trusted me and I violated their trust. I know I gave them a very high level of confidence. I know they are now second-guessing themselves, thinking that they should have been more suspicious. I know they think they should have paid closer attention to signals that they can now see clearly in retrospect. I am deeply sorry.

I am particularly sorry to have stolen customer funds and even though I am not the first to do so, the revelation of my embezzlement comes at a time when it is likely to be very damaging. I am very sorry. I was constantly trying to find a way to replenish the customer's depleted accounts. I built a number of businesses in the hope that there would be an asset base to pay back the money I misappropriated. Perhaps liquidation of my assets will pay back some of the shortfall but certainly not all. Given more time I may have been able to pull it off and pay back everything.

I know the question remains, what did I do with the money? Most of the misappropriated funds went to maintain the increasing levels of Regulatory Capital to keep PFG in business and to pay business losses. A portion went to build the office building at One Peregrine Way, (I had hoped that a mortgage on the building would pay back the cost of building but the appraisal came in tragically low). I even used Customer Funds to pay Fines and Fees charged by the Regulators.

I don't live a lavish lifestyle. Although I am sure that some people will think that I do. I am sure that as my actions are examined I will be thoroughly ridiculed and rightfully so. My family name will be synonymous with fraud. I have done some very bad things and for that I have paid the ultimate penalty.

I have to say I don't feel bad having deceived the Regulators -- the CFTC and the National Futures Association. During the last 30 years that I have been exposed to them they have become more and more mean spirited. They made the decision to be my enemy. I know I am going to be deeply hated by the Regulators, but that is certainly nothing new. Their "Gotcha" style of regulating has made them the enemy of the industry and everyone in it. Their claim of protecting the customer is highly debatable, as they have clearly sought, primarily, to put firms out of business or cause them to move out of the United States. Eliminating firms reduces competition and creates an industry where only large "to-big-to-fail" firms can survive. Is that good for the customers? When I applied for Registration as a Futures Commission Merchant I believe there were over 500 FCMs. Now there are slightly over 100. These Regulators are not the Police of the industry they are the Gestapo! Well, they can put another feather in their hat! They have successfully put another Firm out of business.

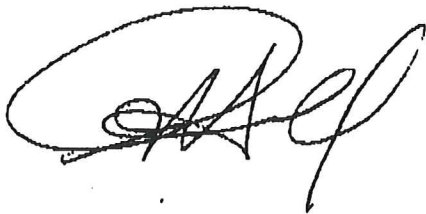
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I know the Regulators will try to make other executives at PFG culpable for my crime but they will discover that I am the only guilty party and I have already imposed a punishment far greater than they could have hoped to impose. There are many honest, talented people at PFG, they don't deserve the predicament I have now put them in and I am deeply sorry.

I am ready to die. I guess this is the only way out of a business I hate so much.

I believe in a loving, forgiving God.

A handwritten signature in black ink, appearing to be 'Raf' or similar, with a large, loopy initial 'R'.