Testimony of

# Mr. Demetrios Anifantis

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Demetrios Anifantis
before the
SENATE JUDICIARY COMMITTEE
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Chairman Specter, and members of the Committee, I am pleased to be called to testify before this Committee.
My name is Demetrios Anifantis. I have worked in the financial services industry for most of my professional career. In 1999, I received a Master's Degree in Economics from Fordham University. I then went to work for Thomson Financial around February 1999 as a Regional Manager for Thomson's Investment Management unit where I worked directly with large mutual fund and hedge fund analysts and Portfolio Managers.

I left Thomson in the summer of 2003 and in about November of that year, I began work for a company called Camelback Research Alliance, Inc. ("Camelback") now known as Gradient Analytics, Inc.

I worked for Camelback as a client relationship manager, performing services for Camelback's subscribers. I worked there for about a year until I was fired in November 2004. I'm now employed by J.P. Morgan Chase. During my tenure at Camelback, I became well acquainted with Camelback's business model, and its management team and staff. It was a relatively small operation.

Camelback touted itself as supplying "independent research" for a fee to subscribers. It was in the business of publishing reports on public companies, and it also sold some software to subscribers that would rank public companies according to their financial performance and prospects.

I worked most closely with Donn Vickrey ("Vickrey"), one of Camelback's two principals. Vickrey and the other principal, James Carr Bettis were the individuals who founded Camelback and had control of Camelback's operations.
Vickrey was in charge of the analyst group and also had close contact with the sales and client services group of which I was part. Vickrey's key function was to oversee the research and writing that went into the reports covering publicly traded companies. Bettis' primary responsibility was to manage the company.

Another manager, Jeff Mindlin had the primary responsibility of engineering as well as managing financial models which were used in Camelback's analytical functions.

There were approximately 18 to 20 analysts that worked for Camelback while I was there. These analysts had responsibility to research and write reports on publicly traded companies. The analysts were all recent graduates of universities with four-year degrees in business-related disciplines, yet management instructed employees to share with clients that the analyst team was comprised of "CFAs" and/or "CPAs" with advanced degrees, even though it appeared to me that none but Camelback's top management had such designations.

These analysts would conduct research on various public companies at the direction of Camelback's management, but few ever developed an expertise in the companies they were researching because it was the practice of management to rotate each analyst frequently so that no particular analyst would work on the same public company for any lengthy period of time.

Camelback advertised analytical reporting services on companies whose securities were publicly traded on various exchanges including the Over the Counter Bulletin Board ("OTCBB"), National Association of Securities Dealers Automated Quotation System ("NASDAQ"), New York Stock Exchange ("NYSE") and others.

At the time I worked for Camelback, Camelback's client base consisted almost exclusively of large hedge funds and mutual funds. My responsibilities included working with the clients to see that their requests were being met with a view towards keeping them satisfied so they would retain their subscription to Camelback's publications.

The price for Camelback's subscription varied, but commonly there was an annual base subscription fee of approximately $25,000 to $30,000 per year. For this fee, the client would receive access to all of Camelback's newly published reports and access to all historic reports on publicly traded companies.

Camelback published all of its reports on one or more websites Camelback owned and operated by Camelback including www.camelbackra.com, www.camelbackresearch.com, www.gradientanalytics.com. www.earingsquality.com, and others.

Camelback's clients could and did access published reports through the Camelbackra.com website. Camelback would also notify existing clients of its subscription service of new reports by dissemination through e-mail and faxes.

Camelback's promotional material and its actual sales practices included selling a yearly "Base Subscription" service to its research reports. Included in the "base" package, Camelback offered to provide subscribers with at least two "custom" reports that could be ordered by a client on a specific company at any time. In addition to the "base" subscription, subscribers could pay for additional custom reports.

Typically, Camelback's subscribers would call Camelback and request these custom reports either through myself, Vickrey, or other client service or sales representatives; however, all report requests would be drafted by an analyst and turned over to Vickrey who supervised the analyst's writing of the reports, and had final editorial oversight of the finished report.

These reports were represented to be "qualitative" analysis and were essentially more subjective in their coverage than "quantative," or technical analysis which involved almost no subjectivity. In Camelback's qualitative reports, the company covered would receive an alpha score from "A" to "F," "A" being the highest score, and "F" being the lowest.

Frequently, the subscribing client of Camelback requesting the custom report would actually supply Camelback with information on the companies that were the subject of the requested report, with instructions to consider and include such information in the report. Usually, the client would instruct Vickrey and other Camelback personnel involved in the intake of the request and the research and writing of the report to generate either a positive or negative report on the company that was the subject of the request.

I personally participated on many telephone conversations between clients requesting special reports and Vickrey. There were usually frequent calls on a single report, and during these, the client would often suggest that Camelback focus on the negative information the client supplied to Camelback for inclusion in the report. In such instances, there was no doubt that the client was asking Camelback to research and draft a negative report on the subject company, and Vickrey commonly altered the report to meet the client's request and expectations lobbied for in the calls.

In these advance publication calls, Vickrey and the client would discuss in detail the report contents. Many times the client would request, and the covered company would receive, an even lower grading than the grade received in the initial versions of the report. Clients rarely wanted a neutral or positive score and would feed Vickrey information, leading him towards a more negative score.

Though Vickrey retained final editing decisions over the reports Camelback published, based on my observations, there was no doubt that these reports were not the product of an independent, unbiased, objective view of the subject companies, but rather that the client was paying for a report that would heavily favor the requesting client's negative view of the company. And frequently segments of the final negative reports included; language, thoughts, ideas, directly shared by the requesting client. Also, frequently the same type of thing was accomplished in that clients often requested that positive aspects of the subject companies be downplayed to give the report an overall negative cast.

Camelback routinely published all custom reports to all clients without discriminating between those reports that might have been the product of independent research, and those that were ordered by a client. Likewise, when Camelback had given a subscriber an advance copy of the report prior to it becoming published or disseminated to the subscribing client base and/or when a subscriber had substantial influence over and input into the report's content, including over the negative assessment Camelback gave the company, there was no disclosure of these facts to either Camelback's subscriber base, or the media to whom reports were also disseminated.

Camelback's principals also made statements indicating that they understood Camelback's subscribers intended to republish the custom reports to third parties who had positions in the stock of the subject companies and to government regulatory agencies. It was also common knowledge, and I knew, that Vickrey would allow financial journalists to review these reports, all of whom Camelback principals anticipated would give wider public circulation to the content of these custom reports. That was part of the business model at Camelback.

Based upon numerous conversations in which I was personally involved, I can say that it was common knowledge at Camelback that those clients who wanted negative reports written on subject companies, and who supplied negative information or guidance to Camelback in connection with a custom report on the subject companies, either had short positions in the securities of these companies or intended to take short positions in advance of publication of the reports.

From all indications, the negative reports from Camelback on the subject companies were a key component in the clients' efforts to profit from the anticipated depression of the trading price of these companies' stocks. In fact, clients sometimes would ask that Camelback not disseminate the report to the public for a specific period of time. This would be for the purpose of the client getting their own position in the stock before the public got the information.

In the writing of these negative research reports, it was the common business practice of Camelback to discuss in advance of publications, drafts of these custom reports with the requesting client. As part of my job, I personally was on many telephone calls listening while Vickrey gave clients advance copies of reports to be published. I was often instructed to email an advanced copy prior to the conference call with the client. Vickrey was a participant in nearly all such calls and there were also analysts who had research and report-writing responsibilities, supervised by Vickrey, who were frequent participants.

Some clients paid more fees for additional reports and several requested many reports on companies in a particular market segment. These clients requesting more reports were known to be large hedge funds with net short positions in the companies they were requesting reports on. Some of these were very aggressive and straightforward in their suggestion of what the negative content of the report should include. Occasionally, I would receive email indicating that Camelback's management was aware of whether a client was known to have a short strategy and therefore would profit from negative information on the companies in which they traded.

I heard representatives of client hedge funds request that Vickrey delay the public release of reports from 3 to 7 days to allow them to take or adjust a position in the stock of the company that was the subject of the report.

Also, while I was employed at Camelback, I was given the task to track the stock performance of the companies that were the subject of Camelback's reports. Camelback formulated a "Top Ten" list that consisted of those stocks that performed in terms of stock price according to the rankings given by Camelback in its reports.

Based upon what I was told by Camelback's management, the purpose of the Top Ten list was to provide to potential and existing clients the tracking results to demonstrate the ability of Camelback to not only predict, but affect, stock performance.

It was common knowledge at Camelback that the management of Camelback, and Vickrey in particular, wished to see the stock performance of the companies track the negative or positive rankings Camelback published in its reports. Vickrey emphasized this as a means of promoting the sales of the subscriber services of the company.

Camelback also tracked what it called "Blow ups by Grade." Camelback defined "Blow ups" as reported-on companies which suffered a one-day stock price decline of -20% or better, or, over the course of a week a price decline of better than -25%, within 12 months of the publication date of a Camelback report.

Camelback tracked blow-ups within the following intervals after report publication: 1 month, 3 months, 6 months, and 12 months. The "Blow up" report was a successful part of Camelback's promotional materials in selling its subscription services to short-selling hedge fund clients.

When Camelback published a negative report on a company, it afterwards published subsequent follow-up reports, by means of supplemental bulletins concerning recent news. In this way Camelback sought to continue to support its original negative ranking of the subject companies. These supplemental bulletins were particularly favored by short-selling, hedge fund clients, and I am aware of several of these published supplemental bulletins where Vickery discussed in advance, in phone conferences in which I participated, the content of these bulletins with a known principal in a short-selling hedge fund.

We were instructed at Camelback to make the subscriptions to these reports available to the media at no cost. I knew of prominent financial journalists who frequently accessed our website. In some instances it appeared to me that the journalists in question were acting in concert with Camelback's management and certain short-selling hedge funds to drive down the share price of companies Camelback covered negatively in its reports. It was commonplace that media reports by financial journalists that appeared to work with Camelback and the short-selling hedge funds would follow closely on the heels of the dissemination of Camelback reports to their client subscribers.

The public companies that were subject to the type of conduct I describe in my testimony today numbered somewhere between 20 and 40 companies while I worked at Camelback. Among these were some well-known companies like Swift Transportation, Krispy Cream Donuts, Taser International, Overstock.com, Net Flicks, and many more.

In the fall of 2004, while I worked at Camelback, it came to the attention of a fellow employee, and subsequently to my attention, that Bettis and Vickrey were portfolio managers for Pinnacle Investment Advisors, LLC, a hedge fund advisor, while at the same time they were principals at Camelback.

This management of a hedge fund by Bettis and Vickrey was directly contrary to my understanding and contrary to specific statements by Vickrey telling the staff, including myself, to be careful to always instruct clients that Camelback did not manage money.
I was present when Camelback management, including Vickrey, told its employees working with clients that if ever a client asked whether Camelback invested or managed money, we were to reply with a definitive, "No."

I initially received the information on Pinnacle from a website Camelback marketing employees used to obtain leads on new hedge fund clients called www.bigdough.com ("BigDough"). BigDough is a firm specializing in tracking hedge funds and hedge fund managers. Camelback sales personnel used information from BigDough's databases to obtain leads for potential clients. The Pinnacle information was contained in one of the BigDough databases. In fact, I personally heard Jeff Mindlin, an employee at Camelback answer one phone on his desk, "Camelback" and another phone on his desk, "Pinnacle Investments."

The BigDough information on Pinnacle specified that Pinnacle managed the Helios Equity Fund, the Pinnacle Insider Perspectives hedge funds and the Hallmark Informed Investors Grown mutual fund.

I became aware that there was a link on Camelback's website that provided access to a website with information on Pinnacle.

I showed the link and subsequent pages, including the Helios portfolio information to Mindlin, and Mindlin seemed very concerned. Within 24/48 hours later the Pinnacle link disappeared.

I was fired in November 2004 along with Robert Ballash. Immediately prior to my firing, both Mr. Ballash and I began to ask questions of Camelback's management regarding Pinnacle, as well as Camelback's practices respecting its clients and some of the material I have discussed here today. I strongly believe that Mr. Ballash and I were fired for asking these questions.

Mr. Chairman, looking back on my year at Camelback, I realize I should have questioned earlier and more sharply the practices there. It took some time for me to understand what was taking place, and the Pinnacle revelation was a turning point.

Also, looking back, and drawing on my experience in the financial markets, it is my opinion, that a few years ago, when large brokerage firms were being fined millions of dollars for creating incentives for their in-house analysts to speak favorably regarding their firm's investment banking clients, and when the SEC responded by enacting regulations concerning the certification of these brokerage firm analysts, that action ignored a large market for similar practices: the so-called "independent analysts" trade. In fact, I believe that much of the in-house business moved out-house, both to escape the regulatory scrutiny of the new regulations, and the scrutiny of the oversight of the self-regulated broker-dealers.

I believe that this type of thing I saw at Camelback is more common in the industry than regulators believe. The independent analyst field is virtually unregulated, and lacks meaningful disclosure. I hope my testimony hear today results in change in this area, both in enforcement and regulation, that will benefit America's public companies and their shareholders.

Thank you, Mr. Chairman.