

**STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

<p>In the Matter of</p> <p style="text-align:center">Veras Capital Master Fund, VEY Partners Master Fund, Veras Investment Partners, LLC, Kevin D. Larson, and James R. McBride,</p> <p>Respondents.</p>	<p style="text-align:center">Admin. Proc. File No. 3-12133</p>
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**PLAN OF DISTRIBUTION**

**Overview**

This Plan of Distribution (“the Distribution Plan”) proposes a methodology for distributing the disgorgement, prejudgment interest, and civil penalties paid by the Veras Capital Partners Master Fund, VEY Master Fund, Veras Investment Partners, LLC, James R. McBride (“McBride”), and Kevin D. Larson (“Larson”) (collectively, “Respondents”) in settlement of administrative proceedings involving findings of deceptive market timing and late trading of mutual funds.

On December 22, 2005, Respondents consented to the entry of an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Section 203(f) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”),

without admitting or denying the Order's findings. The Order found, among other things, that Respondents engaged in a fraudulent scheme to market time and late trade mutual fund shares.

The Order required, among other things, that Respondents pay disgorgement of \$35,554,903 ("Disgorgement Amount") and prejudgment interest of \$645,585 ("Prejudgment Interest"), and that Larson and McBride each pay a civil penalty of \$750,000 ("Penalty"), for a total payment of \$37,700,488 ("Settlement Amount"), which Respondents have paid. The Order also established a Fair Fund under Section 308(a) of the Sarbanes-Oxley Act of 2002, 15 U.S.C. § 7246, and 17 C.F.R. 201.1100 *et seq.* promulgated thereunder, and provided for distribution of the Fair Fund to the affected mutual funds ("Affected Mutual Funds") (Order, Paragraph IV.D.2.). Pursuant to the Order, Respondents undertook in consultation with the staff of the Commission to develop the Distribution Plan for Commission approval. Respondents also undertook to pay all costs associated with administration of the Distribution Plan. Pursuant to Paragraph 22 of the Order, "[f]ollowing a Commission order approving a distribution plan . . . Respondents shall take all necessary and appropriate steps to assist the Commission-appointed Administrator of the final distribution plan." The Distribution Plan is subject to approval by the Commission and the Commission will retain jurisdiction over its implementation.

#### **Administration of the Distribution Plan**

1. **Purpose and Background.** The Distribution Plan has been developed pursuant to the Order and the SEC Rules on Fair Fund and Disgorgement Plans, 17 C.F.R. § 201.1100, *et seq.* ("Rules"). The Fair Fund constitutes a Qualified Settlement Fund ("QSF") under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. § 468B(g), and related regulations, 26 C.F.R. §§ 1.468B-1 through 1.468B-5. The Commission has custody of the Fair Fund and shall retain

control of the assets of the Fair Fund, which is currently deposited at the U.S. Treasury Bureau of Public Debt (“BPD”) for investment in government obligations.

2. Plan Administrator. Rule 1105(a) provides that the Commission “shall have the authority to appoint any person . . . as administrator of a plan of disgorgement of a Fair Fund and to delegate to that person responsibility for administering the plan.” Rule 1105(a) also provides that an administrator may be removed at any time by order of the Commission. Respondents have proposed Peter J. Henning, Esq., (“Henning”) to act as the administrator for the Distribution Plan (“the Administrator”). Henning is a professor of corporate and securities law at Wayne State University in Detroit, Michigan. The staff of the Commission has no objection to the selection of Henning as the Administrator. Henning will be compensated by Respondents.

3. Bonds. Because Henning is not a Commission employee, Rule 1105(c) requires that he “obtain a bond in the manner prescribed in 11 U.S.C. § 322, in an amount to be approved by the Commission,” but allows the Commission to “waive posting of a bond for good cause shown.” Respondents request that the bond requirement be waived for Henning. He will not have discretion regarding payments made from the Fair Fund because payment recipients and amounts will be determined and paid in accordance with the process set forth below. Similarly, he will never have possession of the Fair Fund, which will remain at BPD until distribution.

4. Accountings. As required by Rule 1105(f), “[d]uring the first 10 days of each calendar quarter . . . the administrator shall file an accounting [with the Commission] of all monies earned or received and all monies spent in connection with the administration of the plan of disgorgement.” Within 30 days of the closing of the Distribution Plan, the Administrator will provide the Commission with a final accounting, as required by Rule 1105(f) (the “Final Accounting”). The Final Accounting shall reflect all monies earned or received and all monies

spent in connection with the administration of the Distribution Plan, including the dollar amount of undisbursed funds, which shall be remitted to the Treasury's General Fund.

**Distribution Plan and Procedures**

5. Specification of Eligible Fair Fund Recipients. Rule 1101(b)(2) provides that a plan shall include “[s]pecification of categories of persons potentially eligible to receive proceeds of the fund.” Pursuant to Paragraph IV.D.2. of the Commission’s Order, the proceeds of the Fair Fund will be paid to the Affected Mutual Funds. Accordingly, the Administrator shall distribute the Fair Fund solely to the Affected Mutual Funds. Respondents shall provide to the Administrator the list of the Affected Mutual Funds and the disgorgement calculations that form the basis of the Commission’s Order (the “Disgorgement Amount”). The staff of the Commission and the Respondents calculated the Disgorgement Amount using a “next-day NAV” analysis. The next-day NAV method computes timing related profits as the product of the number of shares purchased by Respondents and the difference between the NAV the day after the purchase and the NAV on the day of the purchase, plus the product of the number of shares sold by Respondents and the difference between the NAV on the sale date and the NAV on the day after the sale. The next-day NAV method thus captures the portion of the late trading and market timing profits that the Commission deems to be illegitimate, and is an appropriate method for allocating the Fair Fund on the specific facts of this case. The method of calculation of each Affected Mutual Fund’s share of the Fair Fund is intended to result in a payment to each Affected Mutual Fund that restores the impaired value of the Affected Mutual Fund. The Commission believes that some of this impaired value is susceptible to calculation, while some of this impaired value is not. The method of calculation is intended by the Commission to fairly

estimate the impaired value that each Affected Mutual Fund has suffered and make a payment in that amount.

6. Methodology for Determining Distributions. The Administrator will determine the amount to be distributed to each Affected Mutual Fund (the “Fund Distribution Amount”) by adding the Disgorgement Amount to a pro-rata apportionment of the Penalty, Prejudgment Interest, and interest on funds deposited at the BPD with any further adjustments, as described in the paragraphs below.

7. Procedures for Locating and Notifying Responsible Persons for the Affected Mutual Funds. Rule 1101(b)(3) provides that a plan shall include “[p]rocedures for providing notice to [potential claimants – in this case, the Affected Mutual Funds] of the existence of the fund and their potential eligibility to receive proceeds of the fund.” The Administrator will identify the entity with fiduciary responsibility for each Affected Mutual Fund or its successor entity. Within 30 days of the approval of the Distribution Plan, the Administrator will send each such fiduciary a notice by United States Postal Service regarding the Commission’s approval of the Distribution Plan and the procedure for distribution. The Administrator will request from each fiduciary information sufficient to accomplish the distribution, including the Tax Identification Number for the Affected Mutual Fund, payment address, contact information and/or wiring instructions.

If an Affected Mutual Fund fails to respond within twenty-one days from the mailing of the notice, the Administrator shall send a second notice by mail. For those Affected Mutual Funds entitled to a Fund Distribution Amount of \$50,000 or greater, if an Affected Mutual Fund does not respond to the second notice within twenty-one days, the Administrator shall make three attempts to contact the Affected Mutual Fund (or its successor) telephonically.

8. Procedures for Making and Approving Claims, Handling Disputed Claims and Cut-off Date for Making Claims. Rule 1101(b)(4) provides, among other things, that a plan shall include “[p]rocedures for making and approving claims, procedures for handling disputed claims, and a cut-off date for the making of claims.” Because the list of Affected Mutual Funds and the Disgorgement Amounts attributable to each have already been identified by the staff of the Commission and Respondents, the Fair Fund will not be distributed according to a claims-made process.

9. Procedures for the Receipt of Additional Funds. Rule 1101(b)(1) provides, among other things, that a plan shall include “[p]rocedures for the receipt of additional funds.” The Fair Fund has been deposited at the BPD for investment in government obligations. Other than interest from these investments, it is not anticipated that the Fair Fund will receive additional funds.

10. Checks/Electronic Transfers. The Administrator may elect to make payment of the Fund Distribution Amount to an Affected Mutual Fund by check or electronic transfer. All payments shall be preceded or accompanied with a communication that includes, as appropriate: (a) a description characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void (non-negotiable) one year from the date of issuance; and (d) the name of a person to contact, to be used in the event of any questions regarding the distribution. Any such information letter or other mailing to an Affected Mutual Fund characterizing its distribution shall be submitted to the assigned Commission staff for review and approval. Distribution checks, on their face, or in the accompanying mailing will clearly indicate that the money is being distributed from an SEC Fair Fund. Checks that are not

negotiated within the stale date shall be voided. Electronic credits will be made only to cash equivalent accounts (e.g., checking or savings accounts).

11. Implementation of the Plan. The Fair Fund distribution to the Affected Mutual Funds will be implemented by the Financial Management Service, United States Department of the Treasury (“FMS”), which will issue checks or electronically transfer funds to the Affected Mutual Funds pursuant to the procedures contained in the Distribution Plan. The Commission’s Order previously authorized payment to the Affected Mutual Funds (whose identities were all known at the time). It is anticipated that the order issued by the Commission approving the Distribution Plan will include a provision authorizing disbursement of the Fair Fund by the Administrator. The Fair Fund disbursements will be made as follows:

a. FMS will provide the Administrator with its proprietary software for the submission, in “Agency Input Format,” of the information necessary to issue checks or electronically transfer funds through the Automated Clearing House (“ACH”).

b. The Administrator will compile the information into an electronic file in the Agency Input Format and submit this electronic file to the assigned Commission staff when, in the Administrator’s judgment, he has obtained the information necessary to make disbursements to a substantial number of the Affected Mutual Funds; provided, however, that the initial distribution shall be made no later than 90 days following approval of the Distribution Plan.

c. The list of Affected Mutual Funds and respective Fund Distribution Amounts in the electronic file will be validated to Commission staff at the Plan Administrator’s direction. The validation will state that the electronic file was

compiled in accordance with the Distribution Plan and provides all the information necessary for FMS to make disbursement by check or ACH.

d. The Commission, through its Office of Financial Management, will transmit the electronic file to FMS for the transfer of funds. Within 48 hours of receipt by FMS, checks will be mailed and/or funds will be transferred by the ACH.

The Administrator will repeat this process as many times as necessary to complete distribution of the Fair Fund.

12. Returned Checks/Electronic Transfer Procedures. FMS will notify the Commission, which in turn will notify the Administrator, of any returned items due to non-delivery, insufficient addresses, and/or other deficiencies. The Administrator shall be responsible for researching and reconciling all errors that result in non-delivery and shall submit supplemental electronic files for payment of the returned items, as appropriate.

13. Secondary Distribution. Upon exhaustion of all procedures to identify and locate the Affected Mutual Funds and to reconcile all errors that result in non-delivery, if any portion of the Fair Fund remains undisbursed (whether because an Affected Mutual Fund has failed to supply identifying information to the Administrator, because the Administrator has been unable to locate an Affected Mutual Fund, because an Affected Mutual Fund or its successor no longer exists, because a check becomes stale, or for some other reason), the Administrator may make a secondary distribution of the remaining funds. Such a secondary distribution shall be on a pro rata basis to each Affected Mutual Fund that previously received a distribution. The Administrator shall make a secondary distribution only if, in the Administrator's judgment, the amount of the remaining funds is sufficient to warrant the additional administrative cost of a secondary distribution.

14. Termination of the Distribution Plan. The Administrator shall declare the implementation of the Distribution Plan complete the sooner of: (1) one year after the date of issuance of the last check, or (2) confirmation of negotiation of all outstanding checks (provided that all other requirements of this Distribution Plan have been met).

15. Costs of Administering Funds. Respondents will pay all fees and costs associated with administration of the Distribution Plan, including but not limited to any tax compliance fees and costs incurred by the Fair Fund and the Administrator's fees.

16. Taxes. The Commission has appointed Damasco & Associates as the Tax Administrator ("Tax Administrator") of the Fair Fund. The Administrator will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission during and after implementation of the Fair Fund. The Administrator shall withhold from distributions to the Affected Mutual Funds an amount sufficient to satisfy any tax liability. The Tax Administrator shall be compensated by Respondents. The Administrator and BPD shall be authorized to provide account information to the Tax Administrator.

17. Amendment. The Distribution Plan may be amended upon the motion of Respondents, the Administrator or upon the Commission's own motion. The staff of the Commission may extend any deadline contained in the Distribution Plan for good cause shown.

**Notice of Proposed Fair Fund Distribution Plan**

18. In accordance with Rule 1103, notice of the Distribution Plan shall be published in the SEC Docket and on the Commission's website. Any person or entity wishing to comment on the Distribution Plan must do so in writing by submitting their comments to the Commission within thirty days of the publication date of the Distribution Plan: (a) via first class mail to the

Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549-1090; (b) by using the Commission's Internet comment form (<http://www.sec.gov/litigation/admin.shtml>); or (c) by sending an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include the appropriate Administrative Proceeding File Number on the subject line.

Submitted on: 6/21/06 By: Paul Leder by Paul Daniels  
Paul A. Leder, on behalf of  
Respondents