

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. NY-7999
THE RESERVE FUND)

WITNESS: William Montgoris

PAGES: 1 through 128

PLACE: Securities and Exchange Commission
 3 World Financial Center
 New York, New York 10281

DATE: Tuesday, February 10, 2009

The above-entitled matter came on for hearing,
pursuant to notice, at 10:12 a.m.

1 APPEARANCES:

3 On behalf of the Securities and Exchange Commission:

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1 PROCEEDINGS

2 MR. BIRNBAUM: We are on the record at 10:12
3 a.m. on Tuesday, February 10th. Good morning, my name is
4 Michael Birnbaum, with me is and Mike Osnato and Alison Conn
5 will be joining us momentarily. We are all for purposes of
6 this proceeding officers of the Commission. I've put before
7 you a few different documents. The first is marked as
8 Exhibit No. 1, the form 1662 that had been previously
9 provided to you and we also provided you with a formal order
10 in this matter. Before I ask you questions about those, let
11 me just administer the oath.

12 Whereupon,

13 WILLIAM MONTGORIS

14 was called upon as a witness in this matter, and after having
15 been first duly sworn, was examined by counsel and testified
16 as follows:

17 MR. BIRNBAUM: Would you state and spell your
18 name for the record.

19 THE WITNESS: William J. Montgoris,
20 W-I-L-L-I-A-M, J. as in John, M-O-N-T-G-O-R-I-S.

21 MR. BIRNBAUM: One of the first things I want to
22 call to your attention in that Form 1662 is that you have a
23 right to counsel and I see you've exercised that right. I
24 would ask counsel to identify themselves for the record.

25 MR. SCHIEREN: George Schieren from the law firm

1 of Clifford Chance in nw.
2 MR. NICKELSBURG: Steve Nickelsburg, also with
3 Clifford Chance.

4 MS. MC LAREN: Laura McLaren with Clifford
5 Chance.

6 MR. BIRNBAUM: This is an investigation by the
7 U.S. Securities and Exchange Commission in the matter of
8 Reserve Fund, file number NY-7999A, to determine whether
9 there have been violations of certain provisions of the
10 federal securities laws. However, the facts developed in
11 this investigation might constitute violations of other
12 federal or state, civil or criminal laws.

13 Have you had a chance to review the formal order
14 that I've placed in front of you?

15 THE WITNESS: Yes.

16 MR. BIRNBAUM: Do you have any questions about
17 it?
18 THE WITNESS: No.
19 MR. BIRNBAUM: Have you had a chance to review
20 the Form 1662?

21 THE WITNESS: Yes.

22 MR. BIRNBAUM: Do you have any questions about
23 that?

24 THE WITNESS: No.

25 MR. BIRNBAUM: I'd also place before you what

1 has been marked as Exhibit No. 70.
2 (Reserve Exhibit No. 70 was
3 marked for identification.)

4 MR. BIRNBAUM: Do you recognize that document as
5 a subpoena pursuant to which you are testifying today?

6 THE WITNESS: Yes.

7 MR. BIRNBAUM: Let met explain a few general
8 rules for today's testimony that I think will make question
9 and answering more efficient and hopefully create a better
10 record. The first is that you will be able I'm sure on many
11 occasions anticipate my questions but I ask that you let me
12 ask the full question before you answer it. Of course I'll
13 give you the same courtesy when you're responding. Is that
14 clear?

15 THE WITNESS: Yes.

16 MR. BIRNBAUM: As you have just done, I would
17 ask that you respond verbally at all times rather than a nod
18 of the head or a shake. Is that clear?

19 THE WITNESS: Yes.

20 MR. BIRNBAUM: In the same vein, if I do cut you
21 off in the middle of an answer, I assure you it won't be
22 intentional but I ask that you let me know that you have more
23 to say and I will certainly give you that opportunity.

24 While the record is controlled by the staff, we
25 certainly are willing to take a break as long as there's not

1 a question pending, we would ask you let us know if you want
2 a break for any reason and we're glad to do that.

3 There is a record today, your testimony will be
4 taped and transcribed and those are the reasons we just
5 discussed.

6 EXAMINATION

7 BY MR. BIRNBAUM:

8 Q Have you ever been involved in any litigation or
9 investigation in which you appeared as a witness?

10 A Yes.

11 Q Tell me the circumstances.

12 A In 1987 there was a transaction between Jardeen
13 Matheson, a Bermuda company that was headquartered in Hong
14 Kong, and Bear Stearns in which Jardeen was to buy a twenty
15 percent interest in Bear Stearns which was a public company
16 at the time. When the stock market crashed in October 1987,
17 that transaction was in the middle of being accomplished.
18 Jardeen decided that they were going to exercise the material
19 change clause in the contract and withdrew from the
20 transaction. Bear Stearns sued and we got through about two
21 weeks of trial in New York and the case was ultimately
22 settled. I testified four or five days and was deposed three
23 times and then subsequent that there was a litigation that
24 involved a real estate broker and Bear Stearns on for all
25 intents and purposes an aborted real estate transaction. The

1 broker sued Bear Stearns, I was deposed on three separate
2 occasions with respect to that matter which was settled
3 before it ended up in trial.

4 Q Other than as a representative of Bears Stearns
5 have you ever been involved in a litigation?

6 A No.

7 Q Have you ever been involved in any investigation
8 other than what you just mentioned?

9 A No.

10 Q Have you ever testified before any
11 self-regulatory body such as FINRA or previously the NASD?

12 A No.

13 Q Can you tell me please your education post high
14 school.

15 A I have an undergraduate degree in accounting from
16 St. John's University in New York City and about twelve
17 credits of post graduate study in accounting as well at St.
18 John's University and then two honorary degrees, one for a
19 Masters from Colby College and one a Doctorate of Commercia
20 Sciences from St. John's University.

21 Q And following your graduation from St. John's,
22 can you give me an overview of your employment history,
23 please.

24 A I spent four months on active duty in the
25 military and when I returned I started working with Lybrand

1 Russ Brothers & Montgomery which was a predecessor firm to
2 what is now Pricewaterhouse Coopers. I did that for eight
3 years, left in 1975. I went to a firm called Leigy Spendilli
4 which was an investment banking firm 35 percent owned by
5 Insurance Company of North America which ultimately became
6 Signa, was a private company and went there as the
7 controller, became the CFO in 1979. The company was sold by
8 INA to Paine Webber in 1979. I was hired by Bear Stearns,
9 then a private partnership in December 1979, I was employed
10 as the controller, became a general partner in April 1985,
11 became a public company in 1986 and I became the CFO in 1987,
12 became the chief operating officer and CFO in 1993 and
13 retired from Bear Stearns in June 1999 as the chief operating
14 officer.

15 Q And since you retired from Bear Stearns, have you
16 had any other employment other than Reserve?

17 A I do not have a full time job, I am a director of
18 three public companies, Office Max, Carters Inc. and Stage
19 Stores Inc. and I serve on the boards of four not for
20 profits, St. John's University, Colby College, Hackensack
21 University Medical Center and I am the board chair of
22 Covenant House and of course the Reserve Fund.

23 Q What is the first board you served on of the ones
24 you mentioned?

25 A Office Max?

1 Q Chronologically, whether it's one of these.
 2 A A public company?
 3 Q A public company.
 4 A The first one was Stage Stores, I've been on that
 5 board five years I believe, then Carters a year and a half,
 6 two years in July, and Office Max will be two years coming
 7 August.
 8 Q And other than the not for profits you mentioned,
 9 have you been on any other boards?
 10 A No.
 11 Q When did you join the board of trustees for the
 12 Reserve?
 13 A It was either June or July 1999.
 14 Q As a general matter, I may refer to the Reserve
 15 meaning a collection of Reserve related entities. I would
 16 ask that if you need a clarification as to a particular
 17 Reserve entity or if an answer only makes sense in terms of a
 18 particular Reserve entity you point that out but for these
 19 purposes is my understanding correct that in your role as
 20 trustee you were a trustee specifically for certain funds.
 21 A Yes.
 22 Q And is your role as trustee only for funds and
 23 not for RSVI or any other Reserve entity?
 24 A That's correct.
 25 Q I want to ask you what funds you're trustee for

1 but I don't want to make this a memory test. I'll put in
 2 front of you what has been previously marked as Reserve No.
 3 4. Do you recognize that document?
 4 A Yes.
 5 Q What is that document?
 6 A It's the minutes of the joint meeting of the
 7 board of trustees of the Reserve Fund, the Reserve Municipal
 8 Money Market Trust, Reserve Municipal Money Market Trust II,
 9 Reserve New York Municipal Money Market Trust and Reserve
 10 Short Term Investment Trust.
 11 Q Are you a trustee for funds in those trusts?
 12 A Yes.
 13 Q And are you a trustee for funds other than those
 14 identified on the first page of Reserve Exhibit No. 4?
 15 A There are other funds that we are trustees of,
 16 that I'm a trustee of that aren't listed specifically on
 17 here. I don't know if they would fall under these trusts.
 18 They are state municipal funds.
 19 Q You're not sure whether those state municipal
 20 funds fall under these particular -- if you'd turn to page 9
 21 of this document, bates 178702, where there's a Schedule A,
 22 if you'd take a look at those particular funds, does that
 23 look to you to be a list of the funds for which you are a
 24 trustee?
 25 A Yes.

1 Q As best as you can tell sitting here, is that an
 2 exhaustive list? For purposes of that question I'll ask as
 3 of September 10, 2008.
 4 A I believe so, yes.
 5 Q And are certain of those fund money market funds?
 6 A Yes.
 7 Q And are certain of those funds something
 8 different than money market funds?
 9 A I believe so.
 10 Q Do you understand whether all of those funds are
 11 registered funds?
 12 A I believe so.
 13 Q Are there any trustees that are trustees only for
 14 certain of those funds or is it your understanding that the
 15 same board of trustees sits for all of those funds?
 16 A The same trustee sits for all the funds.
 17 Q Getting back to your work experience, before
 18 joining the board of the Reserve Fund did you have any
 19 experience with money market funds?
 20 A No.
 21 Q Do you know of any other trustees that were on
 22 the board as of September 15th of this year that had a
 23 background in money market funds?
 24 A I'm not sure if Bill Viklund had experience in
 25 money funds. I know his background is primarily banking.

1 It's possible he had some experience in money funds but I
 2 believe everyone else that was a trustee did not have
 3 experience in the funds.
 4 Q Okay. Just so I can make sure we're using the
 5 term "trustee" in the same way, it's my understanding that
 6 Bruce Bent, Sr. is the trustee of those funds. Is that
 7 correct?
 8 A Yes.
 9 Q Are you referring only to the independent
 10 trustees?
 11 A That's correct.
 12 Q Are there any people other than Bruce Bent, Sr.
 13 that are trustees but not independent trustees to your
 14 knowledge?
 15 A Not to my knowledge.
 16 Q Are there any trustees that were trustees as of
 17 September 15, 2008 that are no longer serving as trustees?
 18 A Yes.
 19 Q Who are they?
 20 A Stephen Zieniewicz.
 21 Q What were the circumstances of his departure?
 22 A Stephen is resident in Seattle on the west coast,
 23 he is the chief operating officer and president of a large
 24 hospital group and as we were having constant meetings with
 25 both the SEC, executive sessions with the independent

1 trustees and counsel and board meetings from the 15th through
2 today his opinions partially because of time and partially
3 because of his business involvement made it very difficult
4 for him to be at a majority of those meetings. So about a
5 month and a half ago I would say or maybe two months ago we
6 discussed whether or not we should have a conversation with
7 him about stepping down because we thought it didn't -- for
8 appearances standpoint it didn't look like it would be a good
9 thing for him to miss so many meetings and he agreed to do
10 that.

11 Q When you say "we discussed" --

12 A The independent trustees.

13 Q Who contacted Mr. Zieniewicz?

14 A Our counsel, Stuart Strauss from Clifford Chance,
15 and then Bruce Bent or it might have been Bruce Bent first
16 and then Stuart but I don't know the exact sequence in which
17 it was discussed with him.

18 Q Is there anybody other than Mr. Zieniewicz who
19 has left the board since September 2008?

20 A No.

21 Q Has there been anybody added to the board since
22 September 2008?

23 A No.

24 Q You mentioned Mr. Strauss, does he continue to be
25 counsel to the trustees?

1 A Yes.

2 Q And when did he begin as counsel to the trustees?

3 A I can't be exactly sure but probably about five
4 years ago or six years ago.

5 Q How did you first get involved with the Reserve?

6 A Bruce Bent was a trustee at St. John's University
7 when I went on the board at St. John's which was now
8 seventeen years ago. He was on the board for about five or
9 six years of the seventeen years I've been on the board and
10 they rotated off and didn't come back. So I knew him from
11 that experience and the Reserve was the sweep fund for Bear
12 Stearns retail accounts. So I knew the fund through Bear
13 Stearns and I knew Bruce Bent, Sr. through my work at St.
14 John's.

15 Q And when you retired from Bear Stearns did Mr.
16 Bent approach you about joining the board?

17 A Yes, there was a gentleman named Vincent Mattone
18 who had been at Bear Stearns and had been on the board of the
19 Reserve who passed away in early June and it was after Mr.
20 Mattone passed away that Mr. Bent asked me to replace him.

21 Q At any time since you've been on the board has
22 there been anyone other than the possibility of Mr. Viklund
23 and Bent, Sr. that you understood to have any expertise in
24 the area of money market funds?

25 A I believe Joseph Donnelly had experienced the

1 funds through his career at DLJ, now called Pershing. Other
2 than that I would say no.

3 Q When you say funds, you mean that to include
4 money market funds?

5 A Yes, I believe so.

6 Q When did he leave, approximately?

7 A I'd say he left about the beginning of 2008 or
8 the end of 2007.

9 Q Is it fair to say that since then the board has
10 relied on Mr. Bent, Sr. for expertise in the area of money
11 market funds?

12 A Yes.

13 Q Is it your understanding that Mr. Bent, Sr. knew
14 that the board relied on his expertise in money market funds?

15 A Yes.

16 Q Returning to Reserve No. 4, you know that the
17 trust listed on the top of that document, is it correct that
18 on September 10, 2008 one meeting would have been held for
19 all of those trusts?

20 A Yes.

21 Q Were there times where certain trusts were
22 excluded from a meeting?

23 A Not to my knowledge or recollection.

24 Q If you'd turn to the second page, 178695, under
25 the heading "Report of Portfolio Manager, Investment

1 Commentary," I'd ask you to take as much time as you need to
2 read the document in general for context. I'm going to ask
3 you a question about the sentence that starts with "Mr.
4 Montgoris" about five lines down.

5 A Okay.

6 (Witness perusing document.)

7 Q Do you recall discussing with Mr. Ledford
8 anything about whether any portfolio had exposure to Lehman
9 Brothers?

10 MR. SCHIEREN: Could you let him just finish.

11 MR. BIRNBAUM: Oh.

12 (Witness perusing document.)

13 A I'm sorry, what was the question.

14 Q Do you recall discussing with Mr. Ledford whether
15 any portfolio had exposure to Lehman Brothers?

16 A Yes, I did ask the question.

17 Q Was your question intended to focus on any
18 particular fund or did the portfolio mean funds in general?

19 A My question is just the context.

20 Q Did Mr. Ledford answer your question?

21 A Yes.

22 Q Did he tell you that the Primary Fund held assets
23 in Lehman Brothers debt?

24 A Yes, he did.

25 Q Did he tell you whether any other funds held

1 assets in Lehman Brothers debt?

2 A I don't have a recollection of him having said
3 that.

4 Q Was it your assumption that any funds he didn't
5 mention in response to your question didn't have Lehman
6 Brothers debt?

7 A I would say that was probably the conclusion that
8 I reached.

9 Q And why did you want to know whether any funds
10 held Lehman debt?

11 A Well there had been speculation in the press and
12 in the financial markets about Lehman's financial situation
13 almost from the day after Bear Stearns was acquired by J.P.
14 Morgan Chase and I just wanted to be sure that we didn't have
15 substantial exposure to Lehman Brothers.

16 Q What was the concern that you had regarding what
17 threat any Lehman Brothers exposure would present to the
18 funds?

19 A Obviously the thing that was going through my
20 mind was that if there was a real issue with Lehman Brothers
21 and there was significant positions within a portfolio and
22 that a position lost some or all of its value, that would be
23 detrimental to the fund and the shareholders.

24 Q Did you ever discuss with anybody at RMCI, which
25 I'll refer to Reserve Management Company Inc., whether the

1 threatened a fund's NAV?

2 A No, I'm not.

3 Q I want to show you a document that's previously
4 marked as Exhibit No. 28. This is Moody's 000031 and I'd ask
5 you to take as much time as you need to look at the document
6 and just let me know when you're ready.

7 (Witness perusing document.)

8 A Okay.

9 Q This is an e-mail from June 17, 2008 from Henry
10 Shilling to bbent@ther.com copying Robert Kapak, subject
11 "Forwarding our discussion this afternoon." Do you know who
12 Henry Shilling is?

13 A I have no idea who he is.

14 Q Do you know whether any of these funds, Reserve
15 Fund, are rated by any rating agencies?

16 A I know the funds are rated by Morningstar, I did
17 not know until events since September 15th that there was a
18 Moody's rating on some or all of the funds. I don't even
19 know if it's on all the funds at this point and I don't know
20 if any of the rating agencies rate the funds.

21 Q Sitting here today, do you know whether Standard
22 & Poors has ever rated any of the Reserve Funds?

23 A I do not know that.

24 Q I'll represent to you that Mr. Schilling works
25 for Moody's.

1 investment advisor had any plans for what to do if exposure
2 to a particular asset presented any problem or threat to a
3 fund?

4 A No.

5 Q Did Mr. Ledford --

6 MR. SCHIEREN: Excuse me, are you referring to
7 at or about the time of this --

8 MR. BIRNBAUM: Fair question.

9 Q At any time before September 15th did you talk
10 with anybody from RMCI about any plans RMCI had for action in
11 the event some asset threatened the NAV of any particular
12 fund?

13 A No, I have no recollection of having a discussion
14 like that.

15 Q Were you ever at the meeting on the 10th where
16 Mr. Ledford convinced you that any Lehman exposure did not
17 present a threat to any of the funds?

18 A I think I was satisfied with the answers. I
19 think the minutes are indicative of the conversation. I was
20 on the phone, so I was not physically at the meeting but I
21 think that the answers he gave satisfied me at the time.

22 Q Regardless of whether you recall any
23 conversations with anybody from RMCI are you aware of any
24 plans that RMCI had to support any funds before September
25 15th in the event some asset was compromised in the way it

1 A I have no idea.

2 Q I'm representing that to you.

3 A I'm sorry.

4 Q Do you know bbent@ther.com, do you know of the
5 Bents that refers to?

6 A That would be Sr.

7 Q Did you ever correspond with Bent, Sr. by e-mail?

8 A I don't believe so.

9 Q I want to call your attention to number four in
10 the e-mail.

11 MR. SCHIEREN: Do you know if this is Bent, Sr.?

12 THE WITNESS: I would say it's Bent, Sr. only
13 because Bent, Jr. usually has the Roman numeral II after his
14 name.

15 Q Do you see in the e-mail where it refers to your
16 sons who are now managing day to day operations?

17 A Yes.

18 Q Does that consist with your understanding that
19 this would be Bent, Sir.?

20 A Yes.

21 Q Moving to number four under "Hi Bruce," it read
22 "Contingency planning around credit and liquidity events,
23 timely response to unexpected events" and the introduction to
24 those enumerated topics are "Here are the four areas we wish
25 to explore in more detail." Did you have any understanding

1 that any rating agency wished to explore with the Bents
 2 contingency planning around credit and liquidity events?
 3 A No.
 4 Q How about timely response to unexpected events?
 5 A No.
 6 Q Do you know whether any ratings -- you had any
 7 concerns about whether RMCI had adequate contingency planning
 8 around credit liquidity events?
 9 A No.
 10 Q As a trustee of the funds, would you have wanted
 11 to be made aware of any concerns that a rating agency had?
 12 A I would have liked to have been told that rating
 13 agencies were questioning some issues with respect to the
 14 funds.
 15 Q And why would you want to be told that?
 16 A I think it would -- especially in the four items
 17 here, this is information that would be a good thing for us
 18 as trustees to understand that some outside agency is
 19 questioning and see the response that debt management would
 20 give to those questions.
 21 Q And those responses you expect would help you
 22 discharge your duties as trustee?
 23 A I would expect so.
 24 Q Is it fair to say you were never made aware of
 25 any of the four areas that Mr. Shilling says he wishes to

1 explore in more detail?
 2 A That's correct.
 3 Q You can put this aside. When did you become
 4 aware that any of the funds were rated by Moody's?
 5 MR. SCHIEREN: Are you aware?
 6 A I would say sometime around the time that I was
 7 last here.
 8 Q So certainly after the week of September 15th?
 9 A Yes.
 10 Q Did anybody on September 15th or 16th express to
 11 you any concerns that any rating agency had about any of the
 12 Reserve Funds?
 13 A No.
 14 Q If any rating agency had expressed to anybody at
 15 RMCI concerns about any Reserve Fund on the 15th or the 16th
 16 is that something that you as a trustee would have wanted to
 17 be made aware of?
 18 A My view of that on the 15th and the 16th of
 19 September is that there were so many other things that were
 20 transpiring and so many other things that were taking place,
 21 concerns that a rating agency might have had about what was
 22 happening at the Reserve would have probably been very low on
 23 the scale of things that I wanted to know.
 24 Q I want to distinguish between the general
 25 concerns they might express and concerns specific to the 15th

1 and 16th. If any rating agency had expressed a concern on
 2 the 15th and indicated that concerns may have led to -- if
 3 not answered, may have led to a rating downgrade, would that
 4 have been something you would want to hear about?
 5 A I'm going to kind of stick with the answer I gave
 6 you because with all the turmoil that was taking place on the
 7 15th, if one of the rating agencies was going to call and say
 8 that they were thinking about downgrading the fund, that
 9 would have been very low on the scale of information that I
 10 would have wanted to know about.
 11 Q Okay. I want to give you a document that's been
 12 previously marked as Exhibit No. 32. Again take as much time
 13 as you need to read that. It's an e-mail from Bruce Bent II
 14 to Patrick Ledford on September 15th at 12:58 p.m. I will
 15 represent to you our understanding is where e-mails that I
 16 show you today that says GMT, that's Greenwich mean time, and
 17 at that time Greenwich mean time was four hours different
 18 than New York.
 19 MR. SCHIEREN: Four hours ahead.
 20 MR. BIRNBAUM: Yes.
 21 (Witness perusing document.)
 22 A Okay.
 23 Q We'll work chronologically, so starting with the
 24 second e-mail on the page, it starts "I just go off the phone
 25 with the folks at S&P."

1 A Okay.
 2 Q Were you aware that anybody at Moody's or S&P
 3 were "looking for some type of capital support facility" to
 4 be put in place?
 5 A No.
 6 Q The next paragraph from Mr. Ledford to Mr. Bent
 7 II he notes that "Also just aside, last year when the SIV
 8 market imploded money funds only provided capital support for
 9 the difference between a market price and the par amount."
 10 Do you recall the SIV market imploding?
 11 A Yes.
 12 Q What do you understand Mr. Ledford to mean by
 13 that?
 14 A I do not know what he meant by that.
 15 Q Do you have an understanding as to what an SIV
 16 is?
 17 A Yes.
 18 Q What is that?
 19 A It was a -- I think it was subprime securities.
 20 I wouldn't be able to give you a tutorial on it but I believe
 21 it's subprime markets.
 22 Q And do you remember something in that market
 23 imploding?
 24 A There were issues with the subprime markets, yes.
 25 Q Do you remember if that impacted any of the

1 reserve funds?

2 A I don't believe it did.

3 Q We'll put this document aside for now. Before
4 September 15th how were board meetings ordinarily run? Was
5 there somebody with a gavel, somebody who would lead the
6 meetings? Tell me as much as you can about in the ordinary
7 course how board meetings were run.

8 A The day would start with an audit committee
9 meeting, the audit committee technically was myself as chair,
10 Ron Artenian and Santa Albococca as the other two independent
11 trustees making up the entire audit committee but as a
12 practical matter all of the trustees attended the audit
13 committee meetings and I chaired those meetings. Mr. Bent,
14 Sr. as chair of the board was at the meeting along with all
15 the other independent trustees. We would go through the
16 business of that meeting, usually depending on the time of
17 the year and the status of the audits with KPMG and before
18 then Pricewaterhouse Coopers, those meetings would last
19 anywhere from an hour to an hour and a half.

20 At the conclusion of that meeting the regular
21 business of the board would begin. Those meetings would be
22 chaired by Bruce Bent, Sr. as chair of the board. Normally
23 in the years preceding, I'd say last maybe two years, we
24 would get a very large volume of hard covered book with the
25 agenda and all the information supporting the presentations

1 that were to be made at the board meeting would be usually
2 mailed to us anywhere from a few days to a week before the
3 board meeting so we'd have a chance to go through it and then
4 you would go through this agenda and whatever presentations
5 were to be made would be made.

6 We had recently taken to having the chief
7 investment officer come in with presentations to us and we
8 would basically go through the agenda, authorize whatever
9 resolutions needed to be authorized again through the agenda
10 and conclude the meeting. They could last anywhere after the
11 audit committee meeting from two hours to three and a half
12 hours, a lot would depend on the business that was
13 transpiring at the meeting.

14 Q In the ordinary course how often did the board
15 meet?

16 A Four times a year.

17 Q Since you have served on the board, was there
18 ever an occasion prior to September of this year that the
19 board held any emergency or unscheduled meetings or not
20 regularly scheduled meetings?

21 A Yes.

22 Q Tell me about any such instances.

23 A They were almost entirely around the two years I
24 believe that Pricewaterhouse Coopers issued certifications on
25 the financial statements with material weaknesses in the

1 internal controls and during those two years there were
2 numerous meetings that would be called, almost entirely audit
3 committee meetings but because the entire independent board
4 of trustees came to all the audit committee meetings they
5 effectively full board meetings although they were not I
6 believe reflected in the record as full board meetings, they
7 were reflected as audit committee meetings.

8 Q What were those material weaknesses?

9 A There were several. One was on reconciliations
10 that were not being completed on a timely basis and the
11 reconciling items were not being cleared up on a timely
12 basis.

13 Q Could you explain to me what you mean by
14 reconciliations.

15 A Reconciliations between the transfer agent --
16 bank reconciliations, the bank balances. There was another
17 material weakness on "books and records" in that
18 Pricewaterhouse determined that they had been given drafts of
19 the financial statements and after receiving the drafts they
20 received other financial statements, other iterations of the
21 financial statements that had changes to the drafts so that
22 the final financial statements were adjusted from the drafts
23 and then there was -- I don't remember the exact details of
24 it now, I believe it was the first one. There was some
25 technical violation of -- they believed some technical

1 violation of an SEC rule I believe.

2 Q Do you know what SEC rule?

3 A No, I don't remember.

4 Q Getting back to what you called the books and
5 records violation, how did RMCI address that violation or
6 correct it if they did?

7 A They were corrected. There were -- can I just
8 give you my opinion?

9 Q Sure.

10 A I was not a strong supporter of Pricewaterhouse's
11 position, I thought they were taking small items and blowing
12 them up into weaknesses that didn't rise to the level of
13 material weakness. We had a lot of things about it. I
14 thought they were for whatever reason being completely
15 unrealistic in the positions that they were taking with
16 respect to these items. I mean at the end of the day between
17 counsel and the financial office's office everything was
18 rectified and cleaned up and as a practical matter when KPMG
19 came on board from their first vote to the last vote they
20 accomplished there no material weaknesses.

21 Q Did you think it was unreasonable for
22 Pricewaterhouse to require a final financial?

23 A No, absolutely reasonable to expect final
24 financial statements but the very nature of writing on a
25 financial statement that it's a draft is indicative of the

1 fact that it's not final and subject to change and in my
2 experience in eight years in doing audits and in my
3 subsequent experience on the other side we provided the
4 auditors with draft financial statement throughout every
5 audit and I had been provided with draft financial statements
6 as an auditor throughout every audit that I had ever been
7 involved in and more times than not the finals were different
8 than the drafts and I was never involved in the drafting of a
9 material weakness with respect to that in any client that I
10 was ever involved in or on the other side.

11 Q With respect to Price Waterhouse Coopers, were
12 the initial drafts sent to them, drafts that had already been
13 reviewed by the audit committee?

14 A No, they were drafts that the financial
15 department had put together.

16 Q Do you know if at any time between the time the
17 drafts were first generated and the final versions were sent
18 to Price Waterhouse Coopers any of the Bents reviewed
19 financials?

20 A I have no idea.

21 Q At some point Price Waterhouse Coopers quit?

22 A Price Waterhouse Coopers actually resigned from
23 the engagement before we had a chance to replace them. The
24 audit committee had voted -- I'm sorry, the audit committee
25 had voted to put out an RFP. Our intention had been to

1 invite Price Waterhouse Coopers to participate in the RFP but
2 before we had a chance to do that they called me as chair of
3 the audit committee and said they were resigning from the
4 engagement.

5 Q Before they resigned, had the Reserve addressed
6 all material weaknesses in a way that Price Waterhouse
7 Coopers expressed satisfaction?

8 A They did with respect to the first ones because
9 they were cleaned up in the second but they managed through
10 their procedures to find different material weaknesses in the
11 audit just before they resigned. So those had not been
12 resolved by the time they resigned because they resigned
13 right after they signed off on the audit.

14 Q If I can just clarify to make sure I understand,
15 is it your testimony that other than the material weaknesses
16 identified by Price Waterhouse Coopers in their final audit,
17 all other material weaknesses that had been identified
18 previously had been addressed by the Reserve.

19 A That's correct.

20 Q And had been addressed in a way that Price
21 Waterhouse Coopers acknowledged satisfied them.

22 A Yes.

23 Q Price Waterhouse Coopers left, you ended up doing
24 your RFP.

25 A Yes.

1 Q And who did you hire?

2 A KPMG.

3 Q Was KPMG for all the funds for which you're a
4 trustee?

5 A Yes.

6 Q And at some point did KPMG look at what Price
7 Waterhouse Coopers identified as material weaknesses?

8 A Yes.

9 Q And did KPMG express an opinion as to whether or
10 not they agreed that those items were material weaknesses?

11 A Yes.

12 Q What did they express?

13 A I feel like I'm getting in the middle of two
14 firms but they did not believe that the items that had been
15 written up rose to the level of material weakness.

16 Q Is that because -- if you know, is that because
17 the Reserve had since changed something they did or was KPMG
18 looking at the same facts that you believe PwC was looking
19 at?

20 A No, KPMG was looking at the same facts. We're
21 now dealing in some esoteric accounting issues and one
22 person's definition of a significant deficiency is another
23 person's definition of a material weakness. One of the
24 things that people say all the time about accounting is that
25 it's not a science and I think this is where you see that

1 most clearly. So I from my experience did not disagree with
2 the fact that the items that were outlined as control
3 weaknesses were significant deficiencies but I did not
4 believe they rose to the level of a material weakness. With
5 respect to the draft financial statements, my opinion is that
6 didn't even rise to the level of a significant deficiency. I
7 believe KPMG's position after they looked at the matters was
8 that none of them rose to the level of material weakness and
9 that a couple of them were maybe significant deficiencies.
10 The process of going through closing books is a process that
11 isn't over until it's over and you provide draft financial
12 statements to the auditors before you necessarily finish
13 closing out all the books and I have no experience of draft
14 financial statements ever having become the final without
15 some adjustment because it is such a long process.

16 Q Did somebody serve as the primary point of
17 contact between the Reserve and Price Waterhouse Coopers?

18 A From the management side?

19 Q Yes.

20 A It would have been the CFO, Pat Farrell.

21 Q Did Pat Farrell continue that role with KPMG?

22 A Yes. I could be off on the timing, I don't
23 believe that Pat Farrell was the CFO the first year that
24 Price Waterhouse Coopers had a material weakness, it became
25 after that audit was done but I could be off in my timing a

1 little bit.

2

3 Q For as long as Pat Farrell has been the CFO he's
4 been the primary point of contact?

5 A Yes.

6 Q Just for the record, let's make sure the question
7 is finished. For as long as Pat Farrell has been the CFO at
8 RMCI, he has been the primary point of contact between RMCI
9 and RMCI's auditor.

10 A Yes.

11 BY MS. CONN:

12 Q Did you hold any meetings of the independent
13 trustees directly with any representatives from
14 Pricewaterhouse?

15 A You mean executive sessions, yes. Every audit
16 committee meeting that they attended we had private sessions
17 with them.

18 Q Did you have separate meetings with them about
19 material weaknesses that we've been discussing?

20 A Yes.

21 Q Are there minutes from those executive committee
22 sessions?

23 A I believe there should be.

24 Q Do you have any understanding why PwC was taking
25 these unreasonable positions or these kind of flowing up

1 little items as bigger things?

2 A I couldn't tell you factually, I could only give
3 you my suppositions.

4 Q What was your understanding about what was going
5 on, why did you think they were blowing things out of
6 proportion or whatever?

7 A My opinion was that the relationship with the
8 engagement partner and the management team and after the
9 first year's engagement with the trustees and the audit
10 committee was a contentious relationship.

11 Q Why is that?

12 A You'd probably have to ask Karen Stuckey why that
13 is, she was the engagement partner.

14 Q Do you have any understanding why there was
15 tension in the relationship or a contentious relationship?

16 A No, I mean Price Waterhouse Coopers had been
17 their auditors, they pre-dated my joining the Reserve as a
18 trustee. I don't know exactly how long they had been their
19 auditors but they had been their auditors for a very long
20 time. They had been through a number of partner rotations
21 and partner changes but for some reason when the change was
22 made to Ms. Stuckey it just didn't get off on a good footing
23 I believe and the relationship just degraded from there. She
24 seemed intent in my view on finding issues and I did not have
25 a very good relationship with her either.

1 BY MR. BIRNBAUM:

2 Q I want to turn a little bit closer to the events
3 of September 15th. When did you first learn that RMCI wished
4 to convene a meeting of the board of trustees?

5 A It was about 6:15 or 6:30 in the morning on
6 September 15th.

7 Q How did you learn that?

8 A I got a telephone call from Bruce Bent II, he
9 told me that the Lehman filing had taken place earlier in the
10 morning or during the night and that we needed to convene a
11 meeting of the audit committee so that audit committee could
12 make a decision as to whether or not the valuation of the
13 Lehman paper in the portfolio could be changed from amortize
14 cost to fair value accounting.

15 Q Was that call the first you learned that Lehman
16 had filed for bankruptcy?

17 A When I went to sleep that night, I knew that they
18 were -- I understood from the press that they were in the
19 process of preparing their filing but I would say that I
20 definitively knew that was the first time.

21 Q On the 14th, Sunday?

22 A Yes.

23 Q Did you talk to anybody from the board of
24 trustees or RMCI or the Reserve or generally on the 14th?

25 A No.

1 Q When you got the call from Bent II on the morning
2 of the 14th, was that the first you spoke to anybody from the
3 Reserve?

4 A Yes.

5 Q Were you given a dial-in number?

6 A Well I suggested to Bruce that it should be a
7 full board meeting. While I felt it was an audit committee
8 decision since all the trustees came to the audit committee
9 meetings and since this would be a significant change going
10 from amortized cost to fair value accounting that all the
11 trustees should be invited to the meeting and he said he
12 would arrange for that and I believe, I could be mistaken,
13 but I think we all got an e-mail with a call-in number and a
14 time to call.

15 Q Between the time you first heard from Bent II and
16 the time you got on the call for the 8:00 board meeting, did
17 you have any conversations with anybody from the Reserve or
18 any trustees?

19 A No.

20 Q Did you communicate in any way excluding the
21 e-mail with the call-in number and the time to call, with
22 anybody from the Reserve or the board of trustees?

23 A No.

24 Q What did you understand the purpose of the call
25 to be? Was it limited to the valuation of the Lehman paper

1 or was there anything else on the agenda as you understood
 2 it?
 3 A As I understood it, it was limited to the
 4 negative value in the Lehman paper.
 5 Q Did you have an understanding as to the total
 6 Lehman paper held by the funds?
 7 A Before the meeting or after the meeting?
 8 Q Before the meeting. Is it fair to say the last
 9 you discussed it was at the September 10th board meeting?
 10 A Yes.
 11 Q And at the first board meeting on the 15th did
 12 you learn anything about any of the funds of Lehman Holdings
 13 that was inconsistent with what you understood to be the case
 14 coming out of the 10th?
 15 A With the Primary Funds?
 16 Q We can start with the Primary Funds. Did you
 17 learn anything on the 15th at that first meeting about
 18 Primary Funds of Lehman Holdings that was inconsistent with
 19 what you already knew?
 20 A No.
 21 Q How about any other funds?
 22 A I believe at that meeting there was a very brief
 23 discussion about Yield Plus.
 24 Q What do you remember about that discussion?
 25 A That there was Lehman paper and there was a

1 A The Lehman paper?
 2 Q Yes. My question is whether it's -- you found it
 3 relevant whether it's longer term or shorter term, whether
 4 some were senior or junior, did you have an understanding
 5 that one fund held a different kind of paper than another
 6 fund?
 7 A No, my recollection was that it was mostly
 8 commercial paper but there were some medium term notes
 9 involved in the positions.
 10 Q And was it your understanding that whatever action
 11 you took with respect to Lehman paper would apply equally to
 12 any Lehman paper in any of the funds, any of the funds of
 13 which you were trustee?
 14 A Yes.
 15 MR. BIRNBAUM: I think this is a good time to
 16 take a short break. Let's go off the record at 11:10 a.m.
 17 (Whereupon, a recess was taken.)
 18 MR. BIRNBAUM: On the record at 11:22. Mr.
 19 Montgoris, am I correct in stating that while we were off the
 20 record we did not discuss the substance of this matter with
 21 the staff?
 22 THE WITNESS: Yes.
 23 Q Did you ever have occasion before September 15th
 24 to learn about any credit support for any money market funds?
 25 A Reserve Funds?

1 Lehman position in Yield Plus and that the percentage was
 2 larger than the percentage in the Primary Fund.
 3 Q Was there any discussion of the fund called
 4 International Liquidity?
 5 A I don't remember that there was but we're not
 6 trustees of International Liquidity.
 7 Q That was my next question. Do you recall any
 8 fund being identified as having Lehman exposure other than
 9 Yield Fund and Primary?
 10 A No.
 11 Q Was it your assumption there was another fund
 12 with Lehman paper limiting the amount of funds for which
 13 you're a trustee that somebody would have informed the
 14 trustees that that person be here on Monday?
 15 A I would hope so, yes.
 16 Q Was it your understanding that whatever action
 17 the board was contemplating with respect to Lehman paper was
 18 equally to Lehman paper or any funds that held Lehman paper?
 19 A Yes.
 20 Q Do you have an understanding as to whether there
 21 was some kind of difference Lehman paper held by one fund to
 22 the other, any difference relevant to your evaluation
 23 decision?
 24 A You mean the nature of the paper that was --
 25 Q The nature of the paper.

1 Q Let's start with the Reserve Funds, sure.
 2 A There was one point in time over the course of
 3 the past ten years where I believe, and I don't remember the
 4 fund, that the management company provided support to
 5 maintaining NAV. It was not -- I don't remember which fund
 6 it was and my recollection was that it wasn't a gigantic
 7 number.
 8 Q If I suggested it was the Enhanced Cash Fund,
 9 does that ring a bell?
 10 A That could be it.
 11 Q And that's not a fund to which you're a trustee.
 12 Correct?
 13 A That's correct.
 14 Q Did you understand how that credit support
 15 arrangement worked?
 16 A No.
 17 Q Did you understand where the money came from?
 18 Was it from Vince personally, from RMCI, from an outside
 19 source?
 20 A It was either from Vince or RMCI, it wasn't from
 21 an outside source.
 22 Q Did you ever have occasion to -- did you have any
 23 understanding that other money market funds outside the
 24 Reserve had used some kind of credit support arrangement to
 25 support a non-Reserve money market fund?

1 A No.
2 Q You saw an e-mail before that spoke of exposure
3 and problems earlier in 2008, did you have any understanding
4 as to whether any funds utilized any kind of credit support
5 arrangements to get through problems relating to SIV's?

6 A No.

7 Q Do you have any understanding as to how a credit
8 support arrangement can work to support a fund such as the
9 Primary Fund?

10 A I'm not sure I understand the question.

11 Q Do you understand what a credit support
12 arrangement is?

13 A Yes.

14 Q What do you understand that to be?

15 A It could be a bank providing financial support,
16 it could be a company providing financial support, it could
17 be guarantees. It's a -- I assume it's a legal document
18 that's got to follow certain strictures, it's got to meet
19 certain requirements and it's got to be signed and counter
20 signed by the various parties.

21 Q Do you have any understanding as to whether the
22 Bents or RMCI were considering putting in place some kind of
23 credit support for any of the Reserve Funds on the 15th?

24 A Yes.

25 Q Of the kinds you just described or other kinds,

1 do you have an understanding of what format the support might
2 take?

3 A No.

4 Q I want to show you a document that's been
5 previously marked as Exhibit No. 13. Of course take as much
6 time as you want to review that. I'll remind you the 10:11
7 GMT time appears to be 6:11 eastern time.

8 A 6:11 p.m.

9 Q Right.

10 (Witness perusing document.)

11 A Okay.

12 Q I want to refer you first to the 9/14/2008 e-mail
13 from Eric Lanske to Bruce Bent at 5:35 p.m., the subject is
14 "Just sharing what reading and not sure applicable." Mr.
15 Lanske writes "Other fund companies which had significant SIV
16 exposure calmed investors by stating they had line of credits
17 available" and he goes on. Is a line of credit a one time
18 credit support arrangement that you understood on the 15th
19 could be used to support a fund?

20 A Yes.

21 Q And do you see Mr. Bent's response to that
22 e-mail?

23 A Yes.

24 Q What does that say?

25 A "This is not an option for us."

1 Q What do you understand Mr. Bent to be referring
2 to when he says "This is not an option for us"?

3 A I don't know if he's referring to a line of
4 credit or -- I'm assuming he's talking about a line of
5 credit.

6 Q Did you know -- do you know sitting here today
7 whether a line of credit was an option to support any of the
8 Reserve Funds?

9 A I don't know if it was an option. I don't know
10 if it was a doable option. It certainly would have been an
11 option that I would have explored.

12 Q On the 15th at some point did you learn that the
13 Bents were contemplating some kind of credit support?

14 A Yes.

15 Q How did you learn that?

16 A We had another board call at 1:00 p.m. on the
17 15th and we were asked to authorize a couple things, one of
18 which was the credit support agreement.

19 Q At that point did you have any understanding as
20 to whether that credit support agreement could have taken the
21 form of a line of credit?

22 A My recollection is that there wasn't a lot of
23 discussion about what form a credit support agreement would
24 take.

25 Q Do you remember anything about having an

1 understanding on the 15th as to what options were available
2 to support any of the Reserve Funds?

3 A No.

4 Q If a line of credit was not an option for the
5 Reserve or to support any of the Reserve Funds, is that
6 something you as a trustee would have wanted to know in
7 deciding whether to authorize RMCI to pursue a credit support
8 agreement?

9 A That would have been helpful information.

10 Q And were you ever told whether a line of credit
11 was an option to support any of the Reserve Funds?

12 A Was an option?

13 Q Were you ever told whether it was an option --
14 let me start the question over. Were you ever told on
15 September 15th whether a line of credit was an option for
16 supporting any of the Reserve Funds?

17 A No.

18 MR. OSNATO: Mr. Montgoris, if you had been told
19 on the 15th that a line of credit was not a viable option for
20 RMCI to explore, why do you think that would have been
21 helpful information to the board?

22 THE WITNESS: Could you repeat that question.

23 MR. OSNATO: Of course. If the board had been
24 told in the course of deciding whether to approve credit
25 support for any of the funds that among the various options

1 available, obtaining a line of credit from an outside source
2 was not one of the options on the table, why would that
3 information have been helpful to the board?

4 THE WITNESS: I think that in my view if we were
5 being told that there were options that might have been
6 options that could have provided credit support that either
7 didn't exist or couldn't be used and the options were getting
8 smaller, that would have I think led to more discussion and
9 more questions about how we were going to accomplish it.

10 Q Mr. Montgoris, I want to give you a document
11 previously marked as Exhibit No. 52. You're welcome to read
12 as much as you like of it although I will focus your
13 attention when you're ready on a couple specific pages. I'll
14 represent to you that these have been identified for us as

15 Ms. Massaro. Do you know who Ms. Massaro is?

16 A Yes.

17 Q Who is that?

18 A Chief compliance officer.

19 Q If you can turn to RF-SEC 00178707, on the top
20 left there appears to be a notation 9/15 which we understand
21 to reflect a 9/15 meeting and under that it appears to say
22 1:00. Do you see that?

23 A Yes.

24 Q Do you see on the top right anything identified
25 that appears to identify you?

1 A Yes.

2 Q What is that?

3 A Bill M.

4 Q You did attend this 1:00 meeting?

5 A By phone, yes.

6 Q Can you read what it says under 1:00.

7 A "Do whatever we need to do to support Primary," I
8 don't know, is that YP?

9 Q Do you have an understanding as to what Primary
10 means there?

11 A The Primary Fund.

12 Q Do you have an understanding of what YP means?

13 A I would guess it's yield plus.

14 Q Is this consistent with your recollection of what
15 you heard, a 1:00 meeting that somebody mentioned that
16 "whatever needs to be done should be done to support Primary
17 Yield Fund"?

18 A With respect to Primary, yes. I don't remember
19 specifically Yield Plus because during the course of the day
20 we had previously talked about the fact that Yield Plus was
21 not a dollar NAV fund, it was a variable NAV fund but that
22 the position that the management company had taken was that
23 it was going to maintain a dollar or NAV in Yield Plus. So
24 yes, definitely with respect to Primary. I'm not sure about
25 Yield Plus.

1 Q When you say something had been discussed earlier
2 in the day regarding Yield Plus, can you explain to me what
3 was discussed?

4 A In one of the earlier meetings when we were
5 talking about the exposure to Lehman Brothers, we talked
6 about the exposure in the Primary Fund and Yield Plus and
7 during that course of that conversation -- and Yield Plus had
8 a larger exposure as a percentage of the portfolio than
9 Primary did. During that discussion what I just said
10 basically was discussed that this was a variable NAV fund, it
11 wasn't a 2(a)(7), it didn't have to maintain a dollar NAV, so
12 we were at that point in that discussion just then focused on
13 Primary.

14 Q Was it your understanding that RMCI intended to
15 support Yield Plus regardless of whether it was a 2(a)(7)
16 fund?

17 A It was my understanding that it was their
18 intention to support Yield Plus.

19 Q What did you base that understanding on?

20 A Basically what was said, that we had consistently
21 said that we would do whatever we can to maintain a dollar
22 NAV in Yield Plus and we will continue to try to do that.

23 Q That was said by somebody on the 15th.

24 A Yes.

25 Q By whom?

1 A One of the Bents, I don't know which one.

2 Q Can you narrow it down. Was it Arthur?

3 A I don't know. Arthur does speak very much.

4 Q Continue with note from Ms. Massaro, you'll see
5 it says "Credit backstop from advisor."

6 A Yes.

7 Q Is it consistent with your understanding -- with
8 your memory of the 1:00 meeting on the 15th that the Bents or
9 RMCI was contemplating some kind of credit backstop from
10 RMCI?

11 A That's my recollection.

12 Q Did you have an understanding at that point as to
13 whether the entire backstop would come directly from RMCI or
14 whether it would come from some other source?

15 A Neither. No understanding that it would come
16 from either RMCI or from some other source.

17 Q Did you have any understanding as to how much of
18 a backstop was needed to support any of the funds?

19 A Not at that -- there were no numbers that were
20 specifically given to the best of my recollection.

21 Q Did you have an understanding that Primary Fund
22 held 750 million of Lehman paper at par value?

23 A At the 1:00 meeting it was my understanding that
24 we had roughly \$750 million of Lehman paper in Primary Fund
25 but I believe we had already made a decision to carry that by

1 1:00.
 2 Q Did you have any understanding as to how a credit
 3 backstop would work in terms of how much of that Lehman paper
 4 would need to be supported under an agreement to backstop any
 5 funds?
 6 A No.
 7 Q Continuing with the notes, after a 750M Primary
 8 it says 350M Yield Plus. I believe you mentioned earlier
 9 that you recall somebody knowing a percentage of Lehman paper
 10 in the Yield Plus fund. Is that correct?
 11 A Yes.
 12 Q And is your recollection consistent with the idea
 13 that Yield Plus held approximately 350 million in Lehman
 14 that's valued at par?
 15 A I don't remember the number, I remember the
 16 percentage was about two and a half percent of the portfolio.
 17 I don't remember the size of the portfolio at the time. I
 18 think that would be -- I remember the two and a half percent.
 19 Q When it says "Motion passed," do you have any
 20 understanding as to what "motion passed" is?
 21 A It would be independent trustees authorizing the
 22 advisor to put a credit facility in place, a credit backstop
 23 in place.
 24 Q I'll ask you to put that aside for now although I
 25 expect to return to the document.

1 BY MR. OSNATO:
 2 Q Can I return to your testimony about a discussion
 3 at some point prior to the 1:00 meeting about supporting the
 4 Yield Plus fund. I understand your testimony is you recall a
 5 discussion that even though this was not a 2(a)(7) fund and
 6 there was no legal obligation to maintain the dollar that as
 7 a matter of business policy or practice RMCI indicated to the
 8 trustees that it intended to nonetheless support the NAV. Is
 9 that correct?
 10 A Yes.
 11 Q And in your capacity as a trustee of the Yield
 12 Plus fund, is that a decision that you approve?
 13 A Yes.
 14 Q And based on what you saw or heard from your
 15 fellow independent trustees, do you think that the
 16 independent trustees as a collective unit approved of RMCI's
 17 decision to support the Yield Plus fund?
 18 A I would say yes.
 19 Q After you heard or RMCI indicated its commitment
 20 to the Yield Plus dollar NAV, was it your expectation that if
 21 at some point later in the day on the 15th that fund NAV was
 22 impaired and fell below a dollar, that RMCI would take the
 23 steps necessary to protect the NAV?
 24 A Yes. Before the 1:00 meeting?
 25 Q At any point thereafter.

1 A Yes.
 2 MR. OSNATO: Thank you.
 3 BY MR. BIRNBAUM:
 4 Q I want to give you a document previously marked
 5 as Exhibit No. 45 which I'll represent to you that it has
 6 been represented to us as the notes of Catherine Crowley. Do
 7 you know who Ms. Crowley is?
 8 A Yes.
 9 Q Who is she?
 10 A General counsel.
 11 Q To?
 12 A To the funds.
 13 Q You can certainly have as much time as you want
 14 to read through all of these notes.
 15 A Why don't you just tell me where you want me to
 16 go.
 17 Q Sure. If you turn to the RF-SEC 00252419, you'll
 18 see the numbers are bit covered but -- we understand this to
 19 reflect the 1:00 p.m. call, the same meeting on September
 20 15th and if you can just read under where it says B-2.
 21 A Yes. Do you want me to read it out loud?
 22 Q Would you.
 23 A "R will enter into credit support agreement with
 24 primary and yield plus."
 25 Q Do you have any understanding as to what R refers

1 to there?
 2 A Reserve.
 3 Q And is this something that you recall Mr. Bent II
 4 telling the board?
 5 A Yes, this is consistent with Christina Massaro's
 6 minutes.
 7 Q And is it consistent with your recollection?
 8 A Yes.
 9 Q And under that you see "Capital large enough to
 10 fund credit support? Stuart Strauss?" and there's a check
 11 next to that. Do you recall any discussions that you believe
 12 those words to reflect?
 13 A The question was asked by Stuart Strauss "Is
 14 there enough capital support and credit support facility" and
 15 the answer was yes.
 16 Q Do you know who gave that answer?
 17 A No.
 18 Q If I represented to you that certain minutes
 19 reflect it was Mr. Bent, Sr., is that consistent with your
 20 recollection?
 21 A Probably.
 22 Q Did you have an understanding sitting at that
 23 1:00 board meeting as to whether the answer that there was
 24 capital sufficient to fund credit support was sufficient to
 25 fund credit support for only one fund or any fund with Lehman

1 exposure?
 2 A My assumption was that it was for any fund with
 3 Lehman exposure.
 4 Q Would you have expected as trustee to be told if
 5 the answer was limited to one fund or the other?
 6 A Yes.
 7 Q Now under that I see your name, it says "Motion
 8 made, Montgoris; seconded, Santa." Do you recall what motion
 9 you made?
 10 A I don't recall but if you gave me the minutes I'm
 11 sure it would be reflective of the motion that was made.
 12 Q I'm happy to do that. Do you recall making a
 13 motion that the Bents or RMCI be permitted to pursue a credit
 14 support agreement?
 15 A Yes.
 16 Q Do you recall -- withdrawn. Was the answer to
 17 Stuart Strauss' question regarding RMCI's ability to provide
 18 credit support relevant in your decision making process
 19 concerning whether you would authorize RMCI to pursue an
 20 agreement?
 21 A Yes.
 22 Q How is it relevant?
 23 A Well I don't think I would have made the motion
 24 to authorize it if we were told that there wasn't enough
 25 capital to support it.

1 Q Did anybody in that meeting express to the board
 2 any limitations on RMCI's ability to support any of the
 3 funds?
 4 A Not to my recollection.
 5 Q Did you have an understanding that support was
 6 conditioned on keeping Lehman at 80?
 7 A I don't have any recollection of that being said
 8 as a condition.
 9 Q That it was relevant to you if RMCI did not
 10 intend to support the fund if the board had decided to lower
 11 the value of Lehman below 80?
 12 A Yes.
 13 Q Do you recall anybody at the 1:00 meeting
 14 expressing to you or the board more generally that any
 15 capital support depended on the numbers of redemptions in any
 16 fund on the 15th?
 17 A No.
 18 Q Were there any conditions at all that you recall?
 19 A No.
 20 Q I want to ask you another question about your
 21 motion but you had asked to see the minutes from that meeting
 22 on the 15th. Concerning that motion you did make, do you
 23 recall making separate motions for different funds, that is
 24 did you make separate motions to authorize RMCI to support
 25 one fund and then to authorize RMCI to support some other

1 fund?
 2 A Not to my recollection, no.
 3 Q Did you understand your authorization to be for
 4 any fund holding Lehman paper?
 5 A Yes.
 6 Q And at that time you understood that to be only
 7 yield plus and the Primary Fund. Correct?
 8 A Yes.
 9 Q I want to give you a collection of documents that
 10 I might as well give you at once. Here's previously marked
 11 Exhibit No. 5.
 12 MR. SCHIEREN: Excuse me, do we need the
 13 handwritten notes?
 14 MR. BIRNBAUM: I don't even know.
 15 MR. SCHIEREN: We have a central file.
 16 Q Exhibit No. 5 we understand to be the final
 17 minutes for September 15th. I'm going to give you a document
 18 previously marked as Exhibit No. 29 which I understand are
 19 the final minutes of the general board of trustees meetings
 20 on the 16th and I'll give you another document which we
 21 understand to be the minutes of the executive session of the
 22 independent trustees on Tuesday, September 16th and this has
 23 not yet been marked.
 24 MR. BIRNBAUM: So if you'd mark that as Exhibit
 25 No. 71.

1 (Reserve Exhibit No. 71 was
 2 marked for identification.)
 3 Q For the record Exhibit No. 71 is marked TRES-SEC
 4 0000107 through 108. While we're at it let me also give you
 5 what was previously marked as Exhibit No. 44. Exhibit No. 44
 6 is an e-mail from pmitchell@ther.com to Rose DeMartino and
 7 Joel Goldberg with subject "Minutes of September 15" and
 8 attaches what appear to be a draft of those minutes. Now
 9 that I've loaded you up with paper, do you recall at any time
 10 on the 15th anybody representing to you that redemptions in
 11 any fund were reaching a level that -- withdrawn. Do you
 12 recall at any time on September 15th learning that
 13 redemptions in the primary fund were reaching a level that
 14 RMCI had concerns that the Primary Fund would break the buck?
 15 A No.
 16 Q What do you understand the phrase "break the
 17 buck" to mean?
 18 A That the net asset value goes below a dollar a
 19 share.
 20 Q And do you understand is there any relationship
 21 between any fund breaking the buck and redemptions or debt
 22 redemptions in a fund?
 23 A Yes.
 24 Q What is that relationship?
 25 A If the size of the fund decreases and you have a

1 security position that is not at par as the size of portfolio
2 decreases, that position will have a larger impact on the net
3 asset value and if the redemptions are big enough without
4 making any changes to the valuation of that security, it can
5 break the buck, so there's two ways to break it.

6 Q When you say two ways, some combination of how
7 far from par value an asset might be marked and how many
8 shares that asset is --

9 A Yes.

10 Q Focusing on the Primary Fund to move from general
11 to specific, is it your understanding that whether the
12 Primary Fund would break a buck would depend more on a
13 combination of how the Lehman people would value and net
14 redemptions of the Primary Fund?

15 A Yes.

16 Q Is it fair to say as a trustee you want to be
17 kept aware of that redemption to the Primary Fund?

18 A Yes.

19 Q Do you have an understanding as to when the board
20 moved the value of Lehman from par to 80, that forced the
21 Primary Fund to break the buck at that time?

22 A Do I think it broke the buck when we repriced it
23 to 80?

24 Q My question is whether when you repriced it you
25 had any understanding at that time as to whether that was

1 moving the net asset value.

2 A That would create a breaking of the buck?

3 Q That is my question but for the record let me
4 find a way to say it. Thinking back to September 15th do you
5 recall voting to devalue the Lehman assets or Lehman paper
6 from par to 80?

7 A Yes.

8 Q And did you have an understanding at that time as
9 to whether that action would force the Primary Fund to break
10 the buck?

11 A Yes.

12 Q What was that understanding?

13 A That it would not.

14 Q Did you understand at that time that with a value
15 of 80 there was some number of redemptions that could cause
16 the Primary Fund to break the buck?

17 A Yes.

18 Q And were you ever told on the 15th that
19 redemptions were approaching a number that the \$1 per share
20 NAV was compromised or in jeopardy?

21 A No.

22 Q I want to refer you to what's been marked as
23 Exhibit No. 71 and take as long as you want to read it. I'm
24 going to ask you in particular a question about or a series
25 of questions about the second paragraph, the one starting

1 "Initially."

2 A Okay.

3 (Witness perusing document.)

4 Q Do you recognize this document?

5 A Yes.

6 Q What is the document?

7 A These are minutes of an executive session of just
8 the independent trustees that was held on Tuesday morning
9 September 16th, right after the full board meeting that
10 morning.

11 Q Do you know who put together the first draft of
12 these minutes?

13 A Clifford Chance, I'm not sure who exactly at
14 Clifford Chance.

15 Q Did you have a chance to review a draft of these
16 minutes before they became final?

17 A Yes.

18 Q Did you have the opportunity to propose any edit?

19 A Yes.

20 Q Do you recall proposing any edit?

21 A I don't remember.

22 Q Do you recall anything -- have you had a chance
23 to review the final version of these minutes?

24 A Yes.

25 Q And does anything that's included in the final

1 version appear false to you?

2 A No.

3 Q In any way inaccurate?

4 A No.

5 Q In that second paragraph starting "Initially," it
6 reads "The independent trustees indicated how shocked they
7 were by the information relayed to them by Reserve Management
8 during the morning's earlier call." For starters, I take it
9 this independent session or trustees session was held after
10 some meeting with RMCI?

11 A Yes, it was immediately after the board meeting
12 from the morning of the first board meeting on September 16th
13 which started at 10:00.

14 Q And do you recall being shocked?

15 A Yes.

16 Q Do you recall why you were shocked?

17 A Yes.

18 Q Why were you shocked?

19 A I was shocked and surprised when we were told
20 that the redemptions had gotten to a very large number,
21 almost \$25 billion and also surprised and shocked to hear
22 that the management had conversations with various people
23 about buying the fund, buying the management company, about
24 hiring an investment banker to see if there was anybody that
25 would be interested in buying it because it seemed that 1:30

1 or 2:00 whenever it was that we had the last call on the 15th
2 that things were seemingly under control and then when they
3 started the meeting at 10:00 we were given all this
4 information that was a radically different picture from what
5 we had been left with the prior day at 1:30, 2:00, whatever
6 time it was, and it was shocking to me that there had been
7 such a substantive and large run on the bank in such a short
8 period of time.

9 Q When you say a large run on the bank in such a
10 short period of time, what time period are you referring to?

11 A Well my recollection was from either 1:30 or
12 2:00, whatever time that meeting actually ended on the 15th
13 until 10:00 a.m. the following morning, so we're talking
14 about 23 hours that there had been this very, very
15 significant run on the bank. Certainly we were in
16 uncharted waters and we were in very significant market
17 turmoil but it was shocking it had happened so fast.

18 Q I want to refer you to Exhibit No. 44, the last
19 page, RF-SEC 00210248, and I will represent to you that we
20 understand this to be a draft of the September 15th board
21 minutes as the covering e-mail seems to reflect. If I call
22 your attention to the second paragraph, the second sentence,
23 you'll see a sentence that begins "As of the beginning of the
24 1:00 p.m. call, redemption requests from the Primary Fund
25 were approximately [8 billion]."

1 A Yes.

2 Q Do you know why those are bracketed?

3 A I don't know why they're bracketed.

4 Q Did you have a chance to review any draft minutes
5 of the general board meetings on the 15th?

6 A Yes.

7 Q Did you have any comment as to whether eight
8 billion was accurate?

9 A I don't have a recollection as to whether I did
10 or did not of the eight billion.

11 Q And if I can show you what's been marked Reserve
12 No. 5, the page marked RF-SEC 00178718, under 1:00.

13 A Yes.

14 Q I call your attention to the sentence about seven
15 lines down, "As of the beginning of the 1:00 p.m. call,
16 redemption requests from the Primary Fund were approximately
17 16.5 billion."

18 A Yes.

19 Q Did I read that right?

20 A You did.

21 Q Do you have any understanding as to why the
22 number was changed at some point from eight billion at least
23 in the one draft we looked at to 16.5 billion?

24 A I do not.

25 Q Do you recall ever hearing at the 1:00 meeting

1 hat redemption requests were up to 16.5 billion?

2 A I did not.

3 Q Do you recall hearing that redemption requests
4 were that high even for the funds combined?

5 A No.

6 Q Was part of your shock on the morning of the 16th
7 a result of hearing of a discrepancy between the redemption
8 figures you were learning on the morning of the 16th and the
9 numbers you had last heard on the 15th?

10 A I'm sorry, could you repeat that again.

11 Q Sure. Was part of your shock on the morning of
12 the 15th -- I'm sorry, on the morning of the 16th, a product
13 of your surprise as to the increase in redemption requests
14 from the last number you heard on the 15th to the number you
15 learned on the morning of the 16th?

16 A Yes.

17 MR. SCHIEREN: Do you remember the number you
18 heard on the 15th, the last number?

19 THE WITNESS: Well my memory remembers the \$8
20 billion number. Obviously as you can see from all of these
21 documents there was a lot going on and there were numbers
22 that were coming at everybody fast and furious and furious
23 and in the minutes of the executive session we talked about
24 five billion dollars which doesn't even match the eight
25 billion that's in the draft of the board minutes but I would

1 say that my recollection, the last number that I remember was
2 \$8 billion on the first day.

3 Q It would not shock you if you learned that the
4 number was five. Is that fair? The last number you heard on
5 the 15th.

6 A No, it wouldn't.

7 Q Are you confident that the number wasn't as high
8 as sixteen?

9 A Yes.

10 Q If you had learned of a number as high as
11 sixteen, would that have influenced your thinking as a
12 trustee in any way on the 15th?

13 A To the extent that if I had heard a number of
14 16 1/2, I probably would have suggested or requested that we
15 have another meeting after the 1:00 meeting later in the day
16 to get a better understanding of exactly what was going on.

17 Q Now at one of the meetings on the 15th was there
18 any discussion about under what circumstances the board would
19 be reconvened?

20 A What we were doing on the 15th was we were trying
21 to set times up to have meetings so that the markets could
22 sort of settle themselves out a little bit if that was going
23 to happen. That was our hope, that they might settle
24 themselves out a little bit and the management team the chief
25 investment officer could have some more time to get a feel

1 for what was actually going on in the marketplace. So as far
2 as two things were concerned, we set up time so that we could
3 all clear our calendars and we didn't have to be trading
4 e-mails back and forth and as far as I was concerned, after
5 we finished the 1:00 meeting, we didn't really set a time for
6 another meeting and my understanding and my feeling was that
7 we were going to have a meeting the next day.

8 Q Were you available after the 1:00 meeting on the
9 15th if circumstances dictated that the board reconvene?

10 A Yes.

11 Q Did somebody express at some point during the day
12 that the trustees would be generally available if a board
13 meeting needed to be held?

14 A We expressed from the first meeting on that if
15 they needed us, we would be available.

16 Q Was it your understanding that you would be
17 contacted if there were any significant events on the 15th
18 that the --

19 A Yes.

20 Q Were you ever contacted to inform you on the 15th
21 that redemption levels had exceeded eight billion?

22 A No.

23 Q If somebody at RMCI knew that redemption levels
24 had gotten this high or higher than the \$16 billion, would
25 that be the kind of fact that you would have wanted to be

1 MS. CONN: Did RMCI tell the board that in
2 valuing the Lehman securities at 80 that would cause the NAV
3 of the Yield trust fund to go below a dollar?

4 THE WITNESS: I don't remember that, no.

5 MS. CONN: Do you think that's something you
6 would remember if they had told you that?

7 THE WITNESS: Yes.

8 Q Are you aware of whether at some point on the
9 15th the reserve was unable to satisfy any redemption
10 requests?

11 A Yes.

12 Q How did you first learn that?

13 A I don't remember the date but at some point, and
14 it wasn't on the 15th, at some point we were told that State
15 Street had pulled their overdraft privileges and had stopped
16 funding redemptions.

17 Q If you can try to narrow it down to when you
18 learned that, could it have been the 16th?

19 A It was sometime during the week of the 15th, it
20 could have been the 16th, it could have been -- we were
21 having so many meetings that whole week, I don't remember
22 exactly when we found that out.

23 Q Do you remember how you found out?

24 A My recollection is that we were told by
25 management.

1 contacted about?

2 A Yes.

3 Q Did you have any understanding as to what level
4 of redemption requests would force the Primary Fund to break
5 the buck if Lehman stayed at 80?

6 A No.

7 Q Was it your understanding that someone was
8 keeping track of that?

9 A That was an assumption that I was making.

10 Q Was it your understanding that if redemption
11 requests got close to forcing the Primary Fund to break the
12 buck with a Lehman value of 80, you as the trustee would be
13 informed of that fact?

14 A I would have expected to. I wouldn't say it was
15 my understanding, I would have expected to be told that.

16 Q Why would you expect that?

17 A Because that would be a pretty catastrophic event
18 and if that happened and the trustees weren't notified that
19 wouldn't be a good thing.

20 Q When the board voted to move the value of Lehman
21 from par to 80, did you have any understanding as to whether
22 that forced the trust to break the buck?

23 A No.

24 Q Do you recall any discussion of that?

25 A No.

1 Q Were you told why State Street had pulled the
2 overdraft privileges?

3 A I don't remember.

4 Q Do you recall when you were told about State
5 Street pulling its overdraft privileges you were aware of any
6 reactions from investors who were unable to have their
7 redemption requests satisfied?

8 A We heard anecdotal commentary that as I would
9 have expected that clients had made redemption requests that
10 were unfunded. They wouldn't be funded because of a lack of
11 liquidity in the market.

12 Q Where did you hear that?

13 A At board meetings.

14 Q Sitting here today do you know when State Street
15 first suspended redemption pay outs?

16 A I thought it was late Monday, the 15th, at eight
17 or nine billion dollars.

18 Q Did the suspension or redemptions have something
19 that the trustee would have wanted to know about?

20 A Sure.

21 Q Why?

22 A We were a money fund and people were used to
23 getting their money as of the day or day after they requested
24 a redemption and we weren't going to be able to do that
25 either for State Street or by liquidating securities in the

1 marketplace because of the turmoil that was taking place.
 2 Q Did you think that an inability to satisfy
 3 redemption pay outs would impact investors decisions as to
 4 whether to withdraw funds from the merger?
 5 A That's a tough question to answer. I'd have to
 6 put myself in the mind of an investor. We were in -- again
 7 as I said before, we were in unchartered water and the
 8 markets were reacting emotionally. They certainly weren't
 9 reacting the way anyone else had seen them react, at least in
 10 my career. So I can't say why a customer would have been
 11 making redemption requests. We could have been funding all
 12 the redemption requests and people would still be redeeming,
 13 making redemption requests -- when investors started
 14 investing their money in treasuries with negative yields,
 15 there's really not a whole lot of logic taking place. It's
 16 really much more on emotion.
 17 Q Were you told why State Street had suspended
 18 redemption requests after eight or nine million, to use the
 19 numbers you gave?
 20 A My recollection at the time is that State Street
 21 was having their own problems with liquidity and just cut
 22 Reserve off.
 23 Q Did anybody express to you that State Street had
 24 concerns about the Reserve and posted concerns about their
 25 own liquidity?

1 A No.
 2 Q Is State Street's reasons for redemptions were at
 3 least in part about concerns State Street had about the
 4 Reserve, is that something you would have wanted to learn as
 5 trustee?
 6 A Sure.
 7 Q Did you have any understanding as to how State
 8 Street decided which investors in which funds would get their
 9 money out first?
 10 A My understanding was that people would pay on a
 11 first in, first out basis.
 12 Q Was it your understanding that the Reserve
 13 provided at list to State Street indicating whose requests
 14 were first in?
 15 A My understanding was that everything was done
 16 electronically and as redemption requests came in they would
 17 be electronically sent to State Street and State Street would
 18 pay them.
 19 Q Just so I understand, the question could refer to
 20 within a particular fund or a cross fund and so I'll ask it
 21 both ways, when you say first in, first out, is it your
 22 understanding that two investors in the same fund would be
 23 paid out in the order in which their redemption requests were
 24 made?
 25 A Yes.

1 Q And in terms of two investors that were invested
 2 in different funds, was it your understanding that any
 3 particular fund was given a priority over another in terms of
 4 redemptions?
 5 A I don't think so.
 6 BY MR. OSNATO:
 7 Q Mr. Montgoris, to back up, do you know if the
 8 Primary Fund was accepting new purchases of shares on the
 9 15th?
 10 A I believe -- my recollection is that at the
 11 beginning of the day they were but at some point that was
 12 stopped.
 13 Q On the 15th?
 14 A I'm not sure if it was the 15th or the 16th.
 15 Q If on the 15th the board of trustees was informed
 16 that RMCI could no longer timely meet redemption requests and
 17 that situation was likely to continue to the short to medium
 18 term future, do you think it would have been prudent for the
 19 board of trustees to consider suspending the acceptance of
 20 new purchases into the fund?
 21 A Yes.
 22 MR. BIRNBAUM: This is a good time for a break,
 23 it's 12:14. Let's go off the record.
 24 (Whereupon, a recess was taken.)
 25 MR. BIRNBAUM: On the record, it's 12:31. Mr.

1 Montgoris, am I correct in stating while we were off the
 2 record you did not discuss the substance of this matter with
 3 anybody from the staff?
 4 THE WITNESS: Yes.
 5 BY MR. BIRNBAUM:
 6 Q Before we went off the record we were discussing
 7 State Street's decision not to continue to fund redemption
 8 requests on the 15th. Am I correct in stating that you never
 9 learned about that decision on the 15th?
 10 A Yes.
 11 Q Is that something you as a trustee would have
 12 wanted to know about on the 15th?
 13 A Yes.
 14 Q Why would you have wanted to know about that?
 15 A Well again because there was no liquidity in the
 16 markets, we couldn't sell securities at an amortized cost to
 17 be able to satisfy redemption requests. If State Street was
 18 not providing overdraft privileges, then there would have
 19 been no way to fund redemption requests and that just
 20 wouldn't have been a good thing to do for the Money Fund.
 21 Q You had mentioned in the context of the question
 22 about you being shocked on the 16th something about RMCI
 23 selling or marketing the funds or the business. Can you
 24 expand on what your understanding was as of the morning of
 25 the 16th.

1 A Really not much more than that. I mean we were
2 told that they had tried to sell the funds, they had hired an
3 investment banker, I think if I'm correct they said they had
4 tried to contact either the treasury or the fed to see if
5 they can get any support from there and that nothing had
6 worked and nothing had been successful. There wasn't a whole
7 lot of more detail than that.

8 Q Did you have an understanding as to whether RMCI
9 was trying to sell the funds themselves or sell the advisor
10 or something different?

11 A We were told both.

12 Q Who told you?

13 A Either Bruce I or Bruce II.

14 Q Did you have any understanding as to whether a
15 buyer would be required to protect the NAV of any Reserve
16 Fund?

17 A No, I did not.

18 Q Would you have wanted to know if they were
19 seeking a buyer and allowing that buyer to purchase a fund
20 without protecting NAV?

21 A Yes, I would have wanted to know that, that would
22 not have been a logical thing to do.

23 Q As a trustee for the funds, would it have been
24 relevant to the decision making process on the 15th and 16th
25 to know whether the Bents were conditioning any sale of any

1 Q Do you know who Joseph Hirschberger is?

2 A I have no idea.

3 Q Do you see a statement that says "The buyer is
4 not required to protect the NAV, that is their option. If
5 they don't protect it and we liquidate Primary in particular,
6 there's still a lot of good assets"?

7 A Yes.

8 Q Is that statement by Bruce Bent II consistent
9 with what your understanding was as of 9:33 a.m. about how
10 the Bents were marketing the fund?

11 A No, it's not. This is the first time I'm seeing
12 or hearing any of this.

13 Q Later in the message Mr. Bent II states "We can
14 anticipate that Primary assets may bottom out at about twelve
15 billion, so total AUM after the bleeding would be about 78
16 billion ." Do you understand what AUM means?

17 A Assets under management.

18 Q Would that be for RMCI in general?

19 A RMCI is the advisor, so I'm only assuming that
20 that would be -- I don't know if that's the assets in all the
21 funds, in the funds that we were not trustees on. I don't
22 know.

23 Q There was certainly no fund as of the 16th that
24 by itself was as large as 78 billion.

25 A No.

1 funds protecting the NAV?

2 A Yes, it would have beneficial.

3 Q Did the Bents or anybody else for that matter
4 ever express to you whether there were any conditions on the
5 sale of their funds?

6 A No.

7 MS. CONN: Did you assume that a condition of
8 selling the funds would need to protect the NAV as the
9 Primary Fund?

10 THE WITNESS: Yes.

11 MS. CONN: Did you assume that after that
12 protection that there would not be -- the Reserve Fund would
13 not be discharging its fiduciary duties to its shareholders?

14 THE WITNESS: I would not have -- I believe I
15 would not have voted in favor of a sale to another party
16 without the expressed guarantee that they would protect the
17 NAV because that clearly would not have been in the
18 shareholder's best interest just to move it from one place to
19 another and have the same exposure.

20 Q I want to show you a document that's previously
21 been label or marked as Exhibit No. 33. Take as long as you
22 want to review it. My question for you is is that the
23 e-mail from Bruce Bent II to Joseph Hirschberger at 9:33 a.m.
24 on Tuesday, September 16th.

25 (Witness perusing document.)

1 MR. SCHIEREN: But you don't know what he's
2 referring to.

3 THE WITNESS: No, I do not.

4 Q Just to clarify my last question, did you know of
5 any funds, specific funds that that would refer to?

6 A No.

7 Q And where it says we can anticipate that the
8 Primary assets may bottom out at about twelve billion, had
9 you been told by 9:33 a.m. on Tuesday that the Bents
10 anticipated Primary assets may bottom out at about twelve
11 billion?

12 A No.

13 Q Were you told that in words or substance at the
14 first meeting on Tuesday, the 15th?

15 A No.

16 Q Regardless of whether you were told that, was it
17 your understanding as of the first meeting on September 16th
18 of the board that the Bents believed they could anticipate
19 that Primary assets may bottom out at twelve billion?

20 A No.

21 Q Would you have wanted to know at that board
22 meeting on the morning of the 16th that Bruce Bent II
23 believed that he could anticipate the Primary assets may
24 bottom out at about twelve billion?

25 A Absolutely.

1 Q Why would you want to know that?
 2 A Because at twelve billion dollars there was no
 3 way that the funds would not have broken up and in my view
 4 that would have constituted a complete and total run on the
 5 bank and we would not at that point be a going concern. We
 6 would be in the process of liquidating the fund.

7 Q Is it fair to say that your understanding as of
 8 the first meeting on Tuesday was that the Primary Fund was
 9 nowhere near that kind of number?

10 A That's correct.

11 Q Sitting here today do you know of anything that
 12 happened overnight before the close of business on Monday to
 13 where the markets opened on Tuesday that significantly
 14 impacted the NAV of Primary Fund?

15 A I would say that the only thing that happened
 16 overnight was that the foreign markets now were having the
 17 same reaction as the U.S. markets were having and if
 18 anything, the emotion and the sentiment that had manifested
 19 itself on Monday was building -- had built overnight and when
 20 the markets opened up on Tuesday it was just a continuation
 21 of what was going on on Monday.

22 Q When you say emotion and sentiment, are you
 23 referring to something that the board felt or do you mean the
 24 general market?

25 A I'm talking the general market. I mean there was

1 time.

2 A Yes.

3 Q Have you ever seen this document before?

4 A No.

5 Q As of 1:19 on Monday, is it your understanding
 6 that the board was meeting?

7 A Yes.

8 Q What time do you think that meeting ended?

9 A Around 2:00 p.m.

10 Q When you say around, you're not sure of the exact
 11 minute but you're confident that it was at least later than
 12 1:19. Is that fair?

13 A Yes.

14 Q Was that the meeting where on your motion the
 15 board authorized RMCI to approach the SEC concerning credit
 16 support?

17 A Yes.

18 Q And was it your understanding that RMCI
 19 eventually approached the SEC about credit support?

20 A Eventually, yes.

21 Q Did the board take a break to allow certain
 22 individuals to contact the SEC or did that call happen after
 23 the meeting or something different?

24 A I have no idea. We did not take a break, I don't
 25 know when the contact was made.

1 no -- when you ask a question like that, I assume that you're
 2 asking did somebody else file bankruptcy, did something
 3 specific happen and as we know from what transpired over the
 4 course of that week, the Lehman event took place on Sunday
 5 night, Monday morning and then emotion took over and then the
 6 markets just continued to deteriorate but if anything, I
 7 think on Tuesday the government announced that they were
 8 going to be bailing out AIG which at first one would have
 9 thought would have been a positive.

10 Q Were you aware at any time on the 15th that
 11 individuals on RMCI's behalf were drafting a public statement
 12 to be made on behalf of the Reserve?

13 A No.

14 Q Were you aware at any time on the 15th that --
 15 excuse me, were you aware at any time on September 15th
 16 whether Mr. Bent II had instructed RMCI's sales force
 17 regarding what should be communicated with respect to any
 18 Reserve Fund?

19 A No.

20 Q I want to show you a document that's been
 21 previously marked as Exhibit No. 15. Certainly take as much
 22 time as you wish to read it. It's an e-mail from Bruce Bent
 23 II to John Drazel, Eric Lansky, copying Catherine Crowley and
 24 Bruce Bent, Sr. and Arthur Bent entitled "Protecting NAV on
 25 Primary." It is from Monday, September 15th at 1:19 eastern

1 Q Do you remember anybody announcing during the
 2 meeting that started at 1:00 p.m. on the 15th that they were
 3 leaving the meeting or dropping off a call so they can go
 4 contact the SEC?

5 A I don't remember that.

6 Q Reading this e-mail, "We, Reserve Management
 7 Company Inc., intend to protect the NAV on the Primary Fund
 8 to whatever degree is required. We have spoken with the SEC
 9 and are waiting for their final approval which we expect to
 10 have in a few hours. You may communicate this to client on
 11 an as needed basis" and it continues. Do you have any
 12 understanding as to whether anybody from RMCI spoke to the
 13 SEC before the 1:00 board meeting about any credit support?

14 A No.

15 Q Do you have any reason to believe any such
 16 contact was placed before 1:19 on the 15th?

17 A I have no reason to believe that.

18 Q Was it your understanding at any time on the 15th
 19 that the Bents or RMCI was awaiting final approval from the
 20 SEC on anything relating to credit support?

21 A No.

22 Q Was it your understanding that RMCI had expected
 23 to have any approval from the SEC within a few hours of this
 24 e-mail?

25 A No.

1 Q Do you know who Mr. John Drazel is?
 2 A Not really -- no. I don't know these two guys.
 3 Q Look at the first sentence where it says "We,
 4 RMCI, intend to protect the NAV on the Primary Fund to
 5 whatever degree is required." Is that statement consistent
 6 with what you understood the Bents to tell the board at the
 7 1:00 meeting?

8 A Yes.
 9 Q Did you ever learn that that statement was false?
 10 A I learned the next morning that they couldn't
 11 meet that obligation.

12 Q When you say they couldn't, what do you mean by
 13 that?

14 A That they couldn't support the NAV to whatever
 15 degree was required.

16 MS. CONN: Why not?

17 THE WITNESS: A combination of redemptions and
 18 the fact that they were unable I believe to get any credit
 19 facility from outside and my supposition at the time was that
 20 they didn't have enough of their own capital to be able to
 21 support it to the degree that it required.

22 Q When the Bents answered Mr. Strauss' question at
 23 the 1:00 meeting on the 15th regarding the means to support
 24 certain funds, did you understand the response to be
 25 conditioned on their ability to get outside funding or an

1 outside line of credit?

2 A No.

3 Q When you learned on the morning of the 16th that
 4 the Bents did not intend to support the Primary Funds, was
 5 that before the board decided to lower the value of Lehman
 6 paper from 80 to zero?

7 A I believe so.

8 Q Did you understand the Bents decision to decline
 9 to support the Primary Fund's NAV to be related in any way to
 10 an expectation as to what the board would value Lehman at on
 11 the 16th?

12 A No.

13 Q So it's your understanding that the Bents decided
 14 not to support the NAV even with Lehman at 80?

15 A Yes.

16 BY MS. CONN:

17 Q In terms of the inability to get any credit
 18 facility from the outside, who conveyed to the board that
 19 that was part of the reason that the Bents or RMCI couldn't
 20 support the Primary Fund?

21 A I don't remember if it was Bruce I or Bruce II.

22 Q It was one of those two?

23 A I think so, yes.

24 Q Did they provide any other details about their
 25 attempts to obtain a credit facility from outside?

1 A No.

2 Q Did the Bents ever convey to the board that there
 3 was a limit to the amount of money that the Bents and RMCI
 4 would use to protect the NAV of the Primary Fund?

5 A No.

6 Q Did they ever convey to the board that they
 7 anticipated an agreement with a \$10 million cap to protect
 8 the NAV of the Primary Fund?

9 A I have no recollection of that.

10 BY MR. BIRNBAUM:

11 Q I want to call your attention please to Exhibit
 12 No. 29 which you have in front of you, the final minutes of
 13 the September 16th meeting.

14 A Okay.

15 Q You're looking at the end of the second full
 16 paragraph on the first page, about six lines up there's a
 17 sentence that begins "Mr. Bent II told the trustees that by
 18 Monday night it had become apparent to management of RMCI the
 19 effect of those redemption requests when coupled with the
 20 inability of the Primary Fund's investment manager to sell
 21 fund assets at reasonable prices in a virtually illiquid
 22 market made it unlikely that RMCI could provide the level of
 23 credit support necessary to support a fund's NAV of one
 24 dollar per share should the NAV of the Primary Fund fall
 25 below that value." Did I read that correctly?

1 A Yes.

2 Q Did anybody tell the board how it had become
 3 apparent to RMCI management that these factors made it
 4 unlikely that RMCI could provide the level of credit support
 5 necessary?

6 A I don't have a recollection of that.

7 Q Did anybody inform the board that RMCI was having
 8 trouble on the 15th getting accurate redemption request
 9 figures so that they didn't know in a timely fashion the
 10 level of redemptions for any particular fund?

11 A Yes, I think that there was discussion that the
 12 redemptions were coming in in such a fast rate that they were
 13 having a hard time keeping up with the numbers.

14 Q Is that in some kind of automated way?

15 A What I know is automated is the or what was
 16 automated was the transmission of the redemption requests
 17 from RMCI to State Street but I'm not sure how the redemption
 18 requests got processed into the system, if it was automated
 19 or not.

20 Q What do you remember somebody telling you, if
 21 anything, about RMCI's ability to keep up with redemption
 22 requests?

23 A The things were happening so quickly and there
 24 was so much turmoil that was taking place in the market and
 25 you can see by some of the stuff that there were different

1 numbers that were being used for the same things and I think
2 in part that was because there was inability to keep track of
3 things as one would like because it was happening so fast. I
4 mean -- maybe by today's standards they're not any more but
5 these were humongous numbers. There was a lot going on at
6 that point in time.

7 Q Did anybody representing redemption numbers to
8 you ever communicate that the figures represented to you
9 could be significantly off?

10 A No.

11 Q Turning to the second page of Exhibit No. 29, I
12 want to call your attention to the third paragraph which
13 reads "Mr. Bent II informed the trustees that if redemption
14 requests were to continue on the 16th at the same high level
15 as the day before, then the Primary Funds could be in danger
16 of breaking the buck unless it received an infusion of
17 liquidity from another source." What do you understand the
18 reference to an infusion of liquidity to mean?

19 A Cash.

20 Q How would that work?

21 A One of the things that we thought might be
22 pursued would be to go to the Fed and see if the Fed could
23 provide some liquidity. The government had open access
24 through the window after Bear Stearns to broker dealers and
25 our hope was that that type of facility could be extended to

1 the Reserve or we tried to get them to think about possibly.
2 going to banks and try to collateralize with the portfolio
3 since they couldn't sell securities, there was no liquidity
4 in the market to do some sort of collateralized borrowings so
5 that they could fund redemption requests but that was going
6 to be an issue obviously because banks were having problems
7 that were as big as the problem that Reserve was having,
8 maybe bigger.

9 Q I just want to make sure I understand what you
10 mean by liquidity. When you mentioned some kind of infusion
11 of cash, are you referring to cash infused in exchange for
12 certain assets so that assets that might not come due for
13 some time could be converted to cash more quickly or are you
14 referring to some kind of infusion of cash that would serve a
15 role providing some kind of support for NAV to improve the
16 value?

17 A I'm talking at this point in time about anything
18 that will give us the ability to fund redemption requests.
19 If Warren Buffett wanted to give them five billion dollars
20 and he wanted to take securities as collateral, that would
21 have been fine with me, any way to get cash to satisfy the
22 shareholders redemption requests.

23 Q So the cash that you're referring to is a means
24 towards funding redemption requests rather than a means
25 towards changing the per share NAV of a particular fund?

1 A Yes.

2 MR. SCHIEREN: The redemption requests would be
3 as dollars.

4 THE WITNESS: As a dollar.

5 Q I want to explore that just a bit. Redemption
6 requests would be a dollar, how would increased liquidity
7 impact the per share value of a fund?

8 A It wouldn't. At that point in time when we were
9 having this discussion we were still carrying Lehman at 80
10 and we still had a dollar NAV. We had -- because State
11 Street had turned off the overdraft privileges, we had a huge
12 amount of unfunded redemption requests. So what the trustees
13 were trying to encourage them to do was to find out since
14 they could not sell any securities into the market at
15 amortized cost, create the cash to satisfy those unfunded
16 redemption requests. What we were trying to do was get them
17 to think creatively outside the box any way they could to
18 generate enough cash to satisfy those unfunded redemption
19 requests.

20 Q Well at some point on the 16th did you consider
21 moving the price of Lehman from 80 to something less than 80?

22 A Yes.

23 Q When is the first time you recall that happening?

24 A We had a discussion after the first board
25 meeting, an executive session, with just the independent

1 trustees and our counsel and at that meeting we started to
2 discuss what we thought was happening in the market with
3 respect to Lehman and whether or not 80 was still an accurate
4 representation of what the fair value was and in light of
5 increase in redemption requests whether or not we were still
6 a going concern or seeing such an event that we were really
7 in the beginnings of a liquidation of the fund.

8 Q I want to refer you back to Ms. Massaro's notes,
9 Exhibit No. 52. As always, take as much time as you need for
10 context. I'm going to ask you a question about page ending
11 711 about four or five lines down.

12 A The one below Price Sell, the line below that
13 one?

14 Q That line actually. To the left of that there
15 appears to be MORT and what I'm trying to figure out is is
16 MORT indicates something that you may have said or is some
17 fragment of "amortized" or any other speculative -- so if
18 you'd just read that paragraph.

19 A I don't think that's MORT, I think it's MONT.

20 MR. SCHIEREN: Meaning you.

21 THE WITNESS: Meaning me.

22 Q I'm sorry.

23 A If you look at the top, she has Mr. B. Arthur and
24 I think that's probably MONT, that's probably me.

25 Q Okay. You can read that paragraph to yourself

1 but is that consistent with a conversation you recall
2 occurring on 9/16 at a 12:00 meeting?

3 (Witness perusing document.)

4 A "Price, sell Lehman paper as much as" -- I can't
5 read the next word or two, "anything left, zero value," I
6 can't read the next --

7 Q I believe it says "and disclose on website/no
8 exposure or written paper down to zero." Do you remember
9 discussing selling Lehman paper for as much as you could?

10 A We were trying to see if there was a way to get
11 the market to help us come up with a fair value for the
12 Lehman paper. So one of the things we discussed was if you
13 could sell the Lehman paper at the best price you could, if
14 it was significant amounts of paper that would be a
15 consideration that we would use in determining market value.
16 If it was small pieces that really were not indicative of
17 what you could sell 750 million dollars for, that would not
18 be indicative of a price to us and at that point our
19 consideration was that we would write it down to zero.

20 Q Now by this time at the 12:00 meeting, were you
21 aware that any markdowns of -- were you aware of what impact
22 any markdown of Lehman would have on the Primary Fund?

23 A I believe so.

24 MR. SCHIEREN: Markdown below 80.

25 MR. BIRNBAUM: Below 80.

1 Fed and our goal at that point was to see if we could figure
2 out a way to keep this thing afloat. So it was only after
3 the call with the Fed and that was a bad day because the Open
4 Market Committee was meeting that day, so we really weren't
5 able to get in touch with -- I don't think we got in touch
6 with anyone that was senior. I didn't know who they were but
7 they didn't sound like they were very senior people but it
8 was only after we spoke with them and they came back to us
9 and told us that they didn't anticipate there was going to be
10 anything that the Fed was going to do to help us out that we
11 reconvened and decided to take action with respect to
12 changing the price of the Lehman paper which I think was at
13 the 3:45 meeting before the 4:00 pricing.

14 Q Did you ever understand there to be a significant
15 amount of probability that the Fed would buy out Lehman paper
16 or take some other step to assist the Reserve, that it should
17 impact how the board valued the Reserve -- sorry, the Lehman
18 paper?

19 A I would say that considering everything that was
20 going on at the time that I would not have thought
21 optimistically that there was anything that the Fed was going
22 to be able to do to help us but in my best business judgment
23 it didn't make any sense to change the valuation of the
24 Lehman paper until we had explored every avenue that was
25 available, somebody could look at that in hindsight with

1 A I believe so.

2 Q What did you understand the sensitivity to be?

3 A I don't remember, it was a long time ago.

4 Q Do you recall that there wasn't much room left to
5 mark down Lehman without the Primary Fund breaking the buck?

6 A I don't remember.

7 Q Two pages later on the page ending in 713 there
8 appears to be another reference to you next to an annotation
9 that looks like "As of 2:20," towards the bottom of the page.
10 It says MONT, "We still haven't changed the NAV from one
11 dollar." Do you recall pointing that out at a board meeting
12 on the 15th?

13 A I don't remember that.

14 Q Do you recall that there was some delay in
15 marking down the Primary Fund's NAV from one dollar on the
16 16th?

17 A I wouldn't characterize it as a delay. From the
18 time we started meeting that day until we did mark it down,
19 we were trying to do whatever we could to see if we could get
20 support so that we wouldn't create that situation. The
21 biggest thing we were trying to do during the course of that
22 day was talk to the Fed about getting some kind of relief
23 from them, possibly having them take the Lehman paper off our
24 hands for some period of time or anything else we were
25 involved in a telephone call with a couple people from the

1 20/20 and say you should have marked it down first thing in
2 the morning or you should have marked it down with the 10:00
3 pricing or the 11:00 pricing. My business judgment was we
4 should try to do whatever we could to avoid that. I wouldn't
5 say I was optimistic that anything was going to happen with
6 the Fed but we did have the conversation and it was certainly
7 I thought worth the effort.

8 Q When the board decided to leave the Lehman value
9 at 80 at its first meetings on the 16th, did you agree with
10 that?

11 A Yes.

12 Q Did you at some point suggest that maybe Lehman
13 paper should be moved to 50?

14 A I don't remember.

15 Q Do you recall anybody suggesting a number lower
16 than 80?

17 A I don't believe so.

18 Q Was your agreement that the Lehman paper should
19 remain at 80 a product of your believing the paper could be
20 sold at 80 or was it for lack of some other number that you
21 could support or for some other reason?

22 A I think it was the latter. At that point there
23 wasn't any paper trading, not only wasn't there any Lehman
24 paper trading, there was hardly any paper trading and there
25 wasn't any empirical data available to change what was a

1 subjective decision. I mean that's what fair value
2 accounting is basically, it's a subjective decision. If
3 there was any discussion about prices other than zero, they
4 were only held in the context of our saying that the only
5 valuation that we put when we changed the pricing, the right
6 valuation was zero. So there was probably -- my recollection
7 is there was discussion about other prices but we were not
8 inclined to do anything other than take it to zero.

9 Q So if the board had previous to the meetings on
10 the 16th moved the Lehman value to 60, is it your expectation
11 that the price would have been left at 60 during the meetings
12 of the 16th until it moved to zero?

13 A In that hypothetical with all the other facts
14 being the same as they were, yes.

15 Q Who were you relying on to inform the board as to
16 any market activity that would be relevant for Lehman paper?

17 A We were getting most of our input from either the
18 Bents or Patrick Ledford directly or Patrick Ledford through
19 the Bents.

20 Q Was that also true on the 15th?

21 A Yes.

22 Q And what information did you expect them to
23 convey to you, what kind of information?

24 A Whether or not paper was trading, how much paper
25 was trading, at what prices paper was trading and with the

1 lack of any actual trading activity what indications of
2 pricing were.

3 Q On the 15th do you recall before the board voted
4 to mark down the paper to 80 that Mr. Bent, Sr. advocated
5 leaving Lehman paper at par?

6 A Yes.

7 Q Do you recall personally challenging Bent, Sr.
8 regarding that?

9 A Yes.

10 Q Is that because you believed par was not fair
11 value?

12 A Yes.

13 Q Do you recall why you thought par was not the
14 appropriate value?

15 A Yes.

16 Q Why?

17 A Because I had never in my career seen any debt of
18 a company that had filed bankruptcy being deemed at par.
19 It's an illogical assumption to think that an institution
20 that is in bankruptcy is going to redeem its paper at par.

21 Q The final minutes on the 15th indicate that the
22 board discussed among other things that Lehman had total debt
23 outstanding of \$613 billion and total assets of \$630 billion.
24 The statements you just made about the likelihood of a
25 company like Lehman having its paper traded at par, did you

1 come to your opinion with full knowledge that Lehman had
2 greater assets than debt outstanding on its books?

3 A Yes.

4 Q And still you thought par was not an appropriate
5 value.

6 A I still don't.

7 BY MS. CONN:

8 Q Mr. Montgoris, you just mentioned that one of the
9 things you expect the Reserve to inform the board about with
10 respect to Lehman and what they earning were the indications
11 of pricing.

12 A Yes.

13 Q How do you define indications of pricing?

14 A I would have expected to be told and would have
15 had no reason to disbelieve that there's been, as an example,
16 \$100 million of Lehman medium term notes traded and the price
17 that it traded at was X. That would have given me an
18 indication of what the market was valuing the paper at.

19 Q And if there were no actual trades, are you
20 familiar with the term called soft bids?

21 A Yes.

22 Q Do you consider soft bids to be an indicating of
23 pricing?

24 A Much weaker than actual trades.

25 Q Are you familiar with a concept of a workout

1 price?

2 A Yes.

3 Q And what is that in your experience?

4 A That is a price that someone is willing to pay
5 and someone is willing to receive in a situation where there
6 aren't enough assets to support the par value of whatever the
7 paper is.

8 Q So in your experience is a workout price
9 something that you can expect to get after the bankruptcy is
10 over?

11 A Yes.

12 Q Do you understand soft bids and an ultimate
13 workout price to be the same thing?

14 A No.

15 Q If you look at Exhibit No. 5 which are the
16 minutes from September 15th that we've been discussing,
17 you'll see that there's a line in the second paragraph under
18 9:30 a.m.

19 A I'm sorry, which page are you on?

20 Q The second page.

21 A Yes.

22 Q The first sentence of that second paragraph says
23 that "Mr. Ledford reported there was indicative pricing in
24 the market for the Lehman paper that was in a range of
25 between 45 to 80 cents on the dollar."

1 A Yes.

2 Q Is that consistent with your recollection of what
3 was told to the board on the 15th?

4 A Yes.

5 Q Was the board told that the soft bids that
6 Ledford had been hearing about in the market were between 30
7 and 40 cents on the dollar?

8 A No.

9 Q Was the board told that in terms of a workout or
10 recovery price that Ledford had earned 60 to 80 cents on the
11 dollar?

12 A I have a vague recollection of something on that
13 order, yes.

14 Q So if you had been told that there were soft
15 bids, no trading, no actual trades but soft bids in the range
16 of 30 to 40 cents on the dollar but maybe speculation about
17 an ultimate workout or recovery price of 60 to 80 cents on
18 the dollar, would that have been something that you
19 considered in valuing the Lehman paper on the 15th?

20 A Yes.

21 Q Is that in your view consistent with the minutes
22 we just read about indicative pricing at 45 to 80 cents on
23 the dollar?

24 A More or less.

25 Q So in your mind there is a significant difference

1 between a workout price and a soft bid?

2 A Yes, there is insofar as this is a money fund and
3 it didn't have the luxury of waiting for a workout price
4 which in the bankruptcy situation as we all know could take
5 months, it could take years whereas a soft bid is something
6 that you would view as being more current.

7 Q So if Ledford had been learning the market, the
8 top bids that you were hearing about were 30 to 40 cents on
9 the dollar as opposed to something else, 80 cents on the
10 dollar, do you think that's something that should have been
11 disclosed to the board?

12 A I think it would have been more information.

13 Q Is that information you would have considered in
14 coming to your assessment of fair value?

15 A It's information I would have considered, I'm not
16 sure if it would have changed the decision that we made only
17 because it's 9:30 in the morning and the markets have only
18 been opened for a little bit and this thing has just been
19 dropped on the market like an atomic bomb and trying to come
20 to a conclusion on fair value and it's more information but I
21 don't think I would have changed where I came out or we would
22 have changed where we came out.

23 Q Did the board get market information from any
24 other sources besides RMCI? By market information I mean
25 soft bids, indicative pricing, whatever?

1 A Not on the 15th or the 16th. Subsequently not
2 necessarily for Primary, a couple of us when we were having
3 discussions about the Covenant Fund, a couple of us checked
4 with people on desks to ask them if they had any pricing that
5 was similar to what shareholder were telling us they thought
6 the market was but on the 15th and 16th, no.

7 BY MR. BIRNBAUM:

8 Q I want you to look at Ms. Massaro's notes,
9 Exhibit No. 52, at 178710 and if you can return to the topic
10 of "Valuation of Lehman" on the 16th.

11 A 710, right?

12 Q 710 and you may look at 709 for context just to
13 see that it looks like we're reviewing notes from 9/16.

14 (Witness perusing document.)

15 A Okay.

16 Q On the top of 710 the notes read "The board meets
17 to approve resolution, seven-day delay, just Primary now." 2
18 which looks like it has an X through it, "Board valuation at
19 50" and then another 2 which is a resolution, "suspend sales"
20 and there's some more as well. Regarding seven-day delay, do
21 you recall what that means?

22 A Yes.

23 Q What does that mean?

24 A That we were in effect going to authorize the
25 fund to take advantage of the period of time that the

1 prospectus allowed it to fund redemption requests which was
2 seven days.

3 Q Where it says "Just Primary now," was it your
4 understanding that that particular resolution would apply
5 only to the Primary Fund?

6 A Yes.

7 Q The next line where it reads "Board valuation at
8 50," do you remember any vote or discussion of moving a
9 valuation figure to 50?

10 A No.

11 Q I want to show you two documents previously
12 marked as Exhibits No. 7 and 8. In both cases we have e-
13 mails from Frank Bonano to Sales, copying Marketing with
14 attached documents. No. 7 was sent at 11:05 eastern time on
15 the 15th, Exhibit No. 8 apparently at 3:41. I want to start
16 with Exhibit No. 7, the attachment to the e-mail. It seems
17 to be a Reserve publication and I want to call your attention
18 to the second to last paragraph under the heading "What
19 happens to Lehman and Merrill positions and why don't they
20 have material impact on portfolio."

21 (Witness perusing document.)

22 A Yes.

23 Q On the first paragraph under that question, "The
24 majority of the Lehman Brothers senior debt will be coming
25 due over the next several weeks." Did you understand on the

1 15th that for a company in bankruptcy senior debt coming due
 2 would make that money available to the holders?
 3 A No.
 4 Q Is it something that doesn't make sense about
 5 senior debt will come due in those circumstances?
 6 A It's an incorrect statement.
 7 Q Why?
 8 A Because it could come due but it's not going to
 9 be paid while a company is in bankruptcy.
 10 Q The next sentence "Based on the current valuation
 11 of these holdings we believe that the holdings will mature at
 12 par value." Is that consistent with your belief at 11:05 on
 13 Monday the 15th?
 14 A No.
 15 Q Do you know if anybody on the board of the
 16 independent trustees believed the holdings would mature, the
 17 holdings matured at par value?
 18 A No.
 19 Q Were you made aware of this communication being
 20 sent in this form or in substance to the public?
 21 A No.
 22 Q Would you have wanted to know the trustee that
 23 the Reserve was communicating the statement in this document
 24 to investors?
 25 A Yes.

1 Q The last sentence of that paragraph, "Due to the
 2 small exposure as well as par value at maturity, the NAV is
 3 not negatively impacted." Did you have any understanding as
 4 to whether the NAV of the Primary Fund would be impacted by
 5 the Lehman Brothers debt?
 6 A Could you try that again.
 7 Q Sure. Let's start with in looking at the
 8 question and answer at the bottom of the page ending in 282,
 9 do you have any understanding as to whether the document is
 10 intended to refer only to the primary fund or to Reserve Fund
 11 in general?
 12 A The way it's written is it does not say
 13 specifically. The way this is written it looks like it's
 14 talking about all of the funds.
 15 Q And --
 16 MR. SCHIEREN: Hold on one second.
 17 (Pause)
 18 A The top says "How does this affect the Reserve's
 19 money market and Yield Plus Funds."
 20 Q Just for the record you're welcome to think out
 21 loud like that but try to do your best to distinguish between
 22 the two.
 23 A I'm sorry.
 24 (Pause)
 25 A This paragraph, the third paragraph from the

1 bottom indicates that this was just with respect to Yield
 2 Plus and the Primary Fund.
 3 Q And your understanding is that the answer to the
 4 next question, the answer starting "The majority of the
 5 Lehman Brothers senior debt" also refers to Primary and Yield
 6 Fund. Correct?
 7 A Yes.
 8 Q And did you have any understanding on the 15th as
 9 to how the Lehman paper would impact the Yield Plus Fund's
 10 NAV?
 11 A Yes.
 12 Q What was your understanding on the 15th?
 13 A That depending on the value that Lehman was
 14 carried at, was marked at it would affect the NAV.
 15 Q Did you know at what value absent redemptions
 16 Yield Plus would break the buck on Monday, the 15th?
 17 A I don't believe so.
 18 Q Did you expect somebody would tell you Yield Plus
 19 did break the buck?
 20 A Yes.
 21 Q Were there actions that you understood the board
 22 would need to take if Yield Plus did break the buck?
 23 A I think -- again my understanding of Yield Plus
 24 was that it was not a guaranteed dollar NAV fund, so I'm not
 25 sure that there were any actions that I knew about that the

1 board would be required to take if Yield Plus broke the buck.
 2 Q Would you have sought advice as to whether the
 3 board had any responsibilities if Yield Plus broke the buck?
 4 A Yes, I'm sure counsel would have advised us.
 5 Q My question was a little different. My question
 6 is whether you would have sought advice if you learned that
 7 Yield Plus broke the buck.
 8 A Yes.
 9 Q Did you seek any advice, I don't want to ask
 10 specifically about any legal advice that might be rendered
 11 but did you seek any legal advice in general on the 15th
 12 concerning Yield Plus?
 13 A I don't remember that we did.
 14 Q Turning to what's been marked as Exhibit No. 8,
 15 this is "Reserve Insights." Have you seen this or any other
 16 document published by the Reserve with the "Insight" title
 17 before?
 18 A Yes.
 19 Q What do you understand "Reserve Insights" as a
 20 general matter to be?
 21 A Just a marketing piece or -- a marketing piece
 22 basically.
 23 Q A way of communicating with investors?
 24 A Yes.
 25 Q And I want to call your attention to the

1 paragraph on the right that starts "The majority of Lehman
2 Brothers senior debt."

3 A Yes.

4 Q In that paragraph -- once again that paragraph
5 reads "Based on the current valuations of these holdings, we
6 believe that the holdings will mature at par value." Do you
7 understand that to be a false statement?

8 A Yes.

9 Q And would you have wanted to know whether this
10 document was sent to investors?

11 A Yes.

12 Q Why would you want to know that?

13 A Because it's wrong.

14 Q Did anybody ever ask the board -- withdrawn. Did
15 anybody ever inform the board about any communications being
16 made public on behalf of the Reserve?

17 A About this specific communication?

18 Q You can start with that specifically.

19 A Not to my knowledge, not with respect to this.

20 Q More generally do you recall on the 15th ever
21 learning of any public communications the Reserve was making
22 excluding the conversations discussed earlier that they may
23 have had with the SEC?

24 A No.

25 Q Have you learned since the week of the 16th that

1 Q Were you involved in drafting any statement or
2 editing any statement disclosing these facts to the public?

3 A At that point we had already hired Rubenstein,
4 Howard Rubenstein's company to help with publicity and press
5 relations. So it was a process where any releases were being
6 drafted, they would get passed through counsel and then they
7 would get passed through Rubenstein and then the trustees
8 would see them before they went out to make any comment that
9 they felt were appropriate and then it would go back through
10 the same process and ultimately be distributed. So I believe
11 with respect to this specific item we did see drafts.

12 Q Do you recall commenting on it?

13 A I do not.

14 Q On the 15th and 16th were you relying on RMCI to
15 inform the trustees when redemptions became so great that any
16 of the funds were in jeopardy of breaking the buck?

17 A Yes.

18 Q I want to show you a document that's been
19 previously marked as Exhibit No. 42. This is an e-mail from
20 David Lentinella on Tuesday, December 16th at what we
21 understand to be 10:39 eastern time to the Bents and others
22 attaching a snapshot report according to the subject line as
23 of 9/15/08. I can represent to you that as produced to us
24 the age of that snapshot report.

25 A Okay.

1 the Primary Fund broke the buck earlier in the day than you
2 initially understood?

3 A Yes.

4 Q What do you understand to be the circumstances
5 that led to the Primary Fund breaking the buck earlier?

6 A My understanding is that there was a calculation
7 error that was made and that I believe it was at the 11:00
8 pricing that the proper calculation would have rounded down
9 to 99 cents because of the redemptions and at that point we
10 would have broken the dollar.

11 Q When you say at the 11:00 pricing, does that mean
12 that sometime between 10:00 and 11:00 there were sufficient
13 redemptions to cause the Primary Fund to break the buck?

14 A Yes.

15 Q And that was with an 80 value for Lehman?

16 A Yes.

17 Q And you were never told that on the 16th.
18 Correct?

19 A No.

20 Q When did you first learn about this error?

21 A I believe it was sometime in November of 2008,
22 near the end of the month I think.

23 Q Was it before the Reserve publicly disclosed this
24 mistake?

25 A Yes.

1 Q Did you ever see this snapshot report?

2 A No.

3 Q Do you know what a snapshot report is?

4 A No.

5 Q Looking at the e-mail accompanying the snapshot
6 report, it reads "Due to Lehman write down and large
7 redemptions in the funds, receivables from RMCI were booked
8 in Yield Plus and its actual liquidity in the funds of 1.7
9 million and 14.8 million respectively. You do not need to
10 book a receivable in Primary due to its large asset value."

11 It then goes on. When did you first become aware, if you're
12 aware, that the receivable was booked on the 15th for Yield
13 Plus?

14 A Around the first week in November.

15 Q How did you become aware of this receivable that
16 was booked on the 15th?

17 A We were called for a special board meeting and
18 the situation was described to us.

19 Q By whom?

20 A It was described by counsel.

21 Q Counsel to the board or counsel to RMCI?

22 A Willkie Farr.

23 Q Did you understand Willkie Farr to represent
24 RMCI?

25 A Yes.

1 Q Did you understand Willkie Farr to also for these
2 purposes represent the trustees?

3 A Represent the funds.

4 MR. BIRNBAUM: We can go off the record at 1:36.
5 (Whereupon, a recess was taken.)

6 MR. BIRNBAUM: Back on the record at 1:38 p.m.
7 Mr. Montgoris, am I correct in stating that while we were off
8 the record you did not discuss the substance of the
9 investigation with the staff?

10 THE WITNESS: Yes.

11 Q Who was on the phone when you first learned about
12 the receivable? I'm not asking for every individual but --
13 let's start with this, were there other board members on?

14 A The independent trustees. I couldn't tell you if
15 they were all on but the independent trustees. We definitely
16 had a quorum.

17 Q Was KPMG on the phone or some representative of
18 KPMG?

19 A I don't remember.

20 Q Was anybody other than counsel or the independent
21 trustees on the phone that you recall?

22 A Yes. Bruce, Sr. was on the phone, I believe
23 Bruce II was on the phone, I don't know about Arthur. I
24 believe Kate Crowley was on the phone and Pat Farrell and
25 Christina Massaro.

1 an announcement that Yield Fund had broken the buck?

2 A Not that I remember.

3 Q Were you consulted before -- are you aware of any
4 press release that Reserve issued relating to a receivable
5 for Yield Fund?

6 A No.

7 Q Are you aware of any public statements that
8 Reserve has made relating to any receivable, actual or
9 contemplated regarding Yield Plus?

10 A No.

11 Q Did the board at any time discuss whether to take
12 any action to compel RMCI to fund a receivable for the Yield
13 Plus fund?

14 A No.

15 Q Has the board arrived at any decision as to
16 whether it will pursue any action, legal or otherwise,
17 against RMCI to obtain any funds for Yield Plus related to
18 this receivable?

19 A When we had the meeting in early November and
20 were given the facts as they were known at that time by one
21 of the litigators from, I think she was a litigator, from
22 Willkie, the board authorized hiring a forensic accounting
23 firm to do a review of the facts related to the receivable.
24 We had a subsequent update I want to say about maybe a month
25 and a half, two months ago, sometime in December. We have

1 Q What fund did you understand them to discuss in
2 the context of the receivables?

3 A Yield Plus.

4 Q And on the 15th did you understand that RMCI had
5 implemented -- withdrawn. Before this November conversation,
6 did you at any time understand that RMCI had implemented any
7 kind of credit support arrangement on the 15th for Yield
8 Plus?

9 A No.

10 Q Did anybody ask at any board meeting on the 16th
11 whether credit support arrangement had been implemented for
12 Yield Plus?

13 A Not to my recollection.

14 Q Do you recall any discussions about whether any
15 credit support arrangement was pursued for Yield Plus?

16 A I don't have a recollection.

17 Q At some point on the 16th whether it became clear
18 to you that Lehman would be down to zero. Did you understand
19 that the Yield Fund if it hadn't broken the buck would then
20 break the buck?

21 A Yes.

22 Q Was there any discussion about whether credit
23 support would be utilized for Yield Fund?

24 A No.

25 Q Was there any discussion on that date regarding

1 not seen the final report from the forensic auditors and we
2 have no gotten a final report from Willkie, as a practical
3 matter, we haven't seen drafts either. So other than the
4 verbal presentations that were made at two meetings, we have
5 not come to any conclusions because we haven't seen final
6 reports.

7 Q What is this forensic accountant tasked with?

8 A Getting to the facts surrounding the setup and
9 subsequent reversal of the receivable on Yield Plus
10 specifically.

11 Q And do you understand the forensic accountant to
12 work for the funds, RMCI or some combination?

13 A Not RMCI but I couldn't tell you specifically if
14 the contract is between the forensic auditors in the funds,
15 the forensic auditors in the trustees or for -- it might be
16 obvious or not so obvious reasons, the forensic auditors and
17 counsel. I'm not sure who the contract is actually with.

18 Q How did Yield Plus account for the receivable or
19 lack thereof in its financials for 2008?

20 A Which financials?

21 Q Did they put together their annual financials
22 yet?

23 A No, but they reversed the receivable on October
24 24th.

25 Q When you say they reversed, who did you

1 understand to reverse the receivable?
 2 A I don't know if Lentinella did it specifically or
 3 if he was instructed to do it by somebody from RMCI but the
 4 receivable was reversed on October 24th.
 5 Q Did you understand it to be a receivable owed to
 6 Yield Plus fund?
 7 A Yes.
 8 Q Did the Yield Plus fund ever vote to authorize
 9 Mr. Lentinella or anybody else to reverse the receivable?
 10 A Not to my knowledge.
 11 Q Who has the authority to reverse a receivable
 12 owed to Yield Fund?
 13 A That's a hard question to answer, I'm not sure.
 14 I mean the authority would reside in the accounting
 15 department to actually book the entry. If you're asking me
 16 who had the authority to instruct someone to reverse it --
 17 Q What I'm asking is as a trustee for the Yield
 18 Plus Fund is it your understanding that someone outside the
 19 Yield Plus Fund can decide without the Yield Plus Fund's
 20 consent, without the trustees of the Yield Plus Fund's
 21 consent to reverse a receivable that was otherwise booked for
 22 Yield Plus' benefit?
 23 A I would answer that question by saying to you
 24 that I believe the ultimate responsibility would lie with the
 25 trustees because this was a receivable. Obviously the

1 trustees aren't running the accounting functions, so there
 2 would be a lot of accounting entries that might be made
 3 during the normal course that would not be something that the
 4 trustees would have to pass on but since this was a
 5 receivable between the management company and Yield Plus, I
 6 would say that the ultimate responsibility or the ultimate
 7 authority for reversing that receivable would ultimately lie
 8 with the trustees.
 9 I think the issue that's still being examined is
 10 what was the authority for setting it up in the first place
 11 and what was the authority for reversing it at the end and
 12 quite frankly at this point without having the final report
 13 there's not a whole lot that I know about the entire
 14 situation other than what little I told you.
 15 Q Let's break down those different components. In
 16 terms of the authority to first set up a receivable, am I
 17 correct -- what is your understanding as to what Yield Plus
 18 would have to do, if anything, to accept the receivable from
 19 RMCI?
 20 A I wouldn't expect they would have to do anything.
 21 Q So if the Yield Plus board had authorized RMCI to
 22 pursue a receivable and RMCI decided to go ahead and book a
 23 receivable or go ahead and pursue a receivable, it's your
 24 understanding that Yield Plus could accept that money without
 25 any further action from the board. Correct?

1 A Yes.
 2 Q And on the 15th you did in fact authorize RMCI to
 3 pursue a receivable for Yield Plus. Correct?
 4 A To provide credit support.
 5 Q To provide credit support and a receivable, you
 6 would want oral credit support.
 7 A Sure.
 8 Q So when you say one of the issues being explored
 9 is the authority to implement a receivable, is it fair to say
 10 you're concerned only with RMCI's authority to enter into
 11 such an agreement?
 12 A No. The preliminary report that we were given,
 13 and again this was the preliminary report, was that
 14 Lentinella thought he was told to set the receivable up and
 15 he thought he was told to do that by Bruce II and that Bruce
 16 II indicated that that was not what he instructed Mr.
 17 Lentinella to do, that he instructed Lentinella to get
 18 prepared to set up the receivable.
 19 Q And that also led to a dispute about whether RMCI
 20 intended to enter into such an agreement with Yield Plus.
 21 Correct?
 22 A That's correct.
 23 Q That doesn't represent any concern on your part
 24 about whether Yield Plus was authorized to accept such a
 25 receivable if everything was kosher on the RMCI side.

1 Correct?
 2 A Kosher being a term of art, yes.
 3 Q Now when we turn to the reversing of a
 4 receivable, am I correct that the board was never consulted
 5 when RMCI chose to reverse the receivable between RMCI and
 6 Yield Plus.
 7 A Correct.
 8 Q Do you know why the matter was eventually brought
 9 to the board's attention?
 10 A I think it was brought to our attention because
 11 someone told the management company that they had a
 12 responsibility to bring this to the attention of the
 13 trustees. I don't remember who that was.
 14 Q Have the Bents ever discussed with you or anybody
 15 from the board to your knowledge anything regarding their
 16 intention to actually fund the receivable for Yield Plus?
 17 A I would say -- I can't speak for the rest of the
 18 board, certainly not to me but at this point there's nothing
 19 to fund because the receivable has been reversed.
 20 Q That's what I'm trying to understand. I thought
 21 you told me one of the issues you're trying to still parse
 22 out is whether the receivable was properly reversed.
 23 Correct?
 24 A Properly set up and properly reversed or properly
 25 set up or properly reversed.

1 Q So at this point it's unclear to you whether or
 2 not the receivable to the extent it existed was properly
 3 reversed.
 4 A That's correct, or properly set up. I don't mean
 5 to be parsing words here but --
 6 Q Understood, but you are certain that the board of
 7 trustees for Yield Plus never authorized the reversal of any
 8 receivable at RMCI. Correct?
 9 A Absolutely.
 10 Q And it's your understanding that only the board
 11 for the trustees, the board of trustees for the Yield Plus
 12 Fund would be authorized to reverse a receivable with RMCI.
 13 Correct?
 14 A That would be my position, yes.
 15 Q Would you disagree with the proposition that RMCI
 16 was entitled to unilaterally reverse a receivable owed to
 17 Yield Plus?
 18 A Yes.
 19 Q Do you know on the 16th whether an NAV was struck
 20 for Yield Plus?
 21 A I don't know definitively.
 22 Q Do you have reason to believe one way or the
 23 other?
 24 A We were striking NAV's every hour, so I would
 25 assume that Yield Plus was having NAV struck.

1 moved the valuation to 80 cents on the dollar?
 2 A Yes.
 3 Q In the meeting in early November with the board
 4 about this issue, did Bruce II describe for the board his
 5 version of events in connection with the receivables?
 6 A My recollection of that meeting was that neither
 7 of the Bents said anything.
 8 Q Do you know why they didn't speak?
 9 A It was -- the whole presentation was made by
 10 counsel.
 11 Q When are you expecting the final report?
 12 A I don't know. We've been asking.
 13 Q Are there minutes from that meeting in early
 14 November with counsel on this issue?
 15 A Yes, but unfortunately with all the meetings that
 16 have been held since September 15th we are currently
 17 suffering from a lack of current minutes. So I have no
 18 recollection of having seen drafts of those minutes for that
 19 meeting.
 20 Q You assume there are drafts somewhere but you
 21 have not --
 22 A I certainly hope so.
 23 Q Is Catherine Crowley still the secretary?
 24 A She's still general counsel, I assume she's still
 25 secretary, yes. She's still there.

1 Q Do you know whether Yield Plus was required to
 2 strike NAV every hour?
 3 A No, I don't.
 4 Q Do you know whether Yield Plus at any time struck
 5 an NAV on the 16th or afterwards that included any receivable
 6 from RMCI?
 7 A I don't know. I don't know the answer to that
 8 question.
 9 BY MS. CONN:
 10 Q Do you know if Yield Plus struck NAV on September
 11 15th which included a receivable from RMCI?
 12 A No, I don't.
 13 Q If the NAV that was struck on the 15th for Yield
 14 Plus was supported by a receivable as a form of credit
 15 support from RMCI that allowed the fund to maintain a dollar
 16 NAV, is that something you would have expected the board to
 17 have been told about?
 18 A Absolutely.
 19 Q But you were never told that.
 20 A No.
 21 Q Is it fair to say on the 15th you understood that
 22 the Yield Plus fund had not broken the buck?
 23 A Yes.
 24 Q Would it surprise you to learn that the Yield
 25 Plus fund broke the dollar NAV at the time that the board

1 Q Is she still attending the meetings?
 2 A Yes.
 3 BY MR. BIRNBAUM:
 4 Q Was this a presentation to the board generally or
 5 was it a presentation to the independent trustees such that
 6 notes would be taken by somebody else?
 7 A Well it wasn't an executive session, if that what
 8 you're asking but it was a presentation to the independent
 9 trustees. I mean it was for the benefit of the independent
 10 trustees. We were the only ones that didn't know about it.
 11 MR. SCHIEREN: But others were there.
 12 THE WITNESS: Yes, the Bents, Farrell, Kate
 13 Crowley, Christina.
 14 Q And I'm sorry if I asked you this before, I just
 15 want to make sure I understand fully. In working with
 16 daylight to develop this report, Willkie Farr, do you
 17 understanding Willkie Farr to be advising the board or the
 18 funds?
 19 A Representing the funds.
 20 Q And you also understand them to be representing
 21 RMCI.
 22 A I don't think they are any more.
 23 Q Do you know if anybody else on this issue for the
 24 purposes of the receivable is representing RMCI?
 25 A I do not.

1 Q Just a few general questions to close. As the
 2 board is currently constituted, do you continue to have
 3 executive sessions?
 4 A We do.
 5 Q And are those regularly scheduled or responding
 6 to some specific event?
 7 A They're in response to specific events or when
 8 your colleagues would like to speak with us.
 9 Q And are minutes kept for those meetings?
 10 A Yes.
 11 Q And are those minutes circulated or up to date in
 12 the way you described the general board minutes?
 13 A No.
 14 Q Do trustees continue to get paid?
 15 A Yes.
 16 Q Do you have any understanding as to where that
 17 money comes from? Is it funds, is it RMCI, something
 18 different?
 19 A It's funds.
 20 Q And has the fee arrangement been altered since
 21 the 15th?
 22 A Yes.
 23 Q How so?
 24 A The normal quarterly meetings fees are the same
 25 but the trustees have been paid for September, October,

1 committee.
 2 THE WITNESS: That are not on the audit
 3 committee.
 4 Q Do you understand the Reserve to either be
 5 creating any new entities or changing the name of entities
 6 that existed as of 9/15?
 7 A I do not, no.
 8 Q Are there any funds for which you're a trustee
 9 now that didn't exist or were named something different in
 10 September?
 11 A No, not to my knowledge.
 12 BY MS. CONN:
 13 Q Did you have any role with the Reserve's insured
 14 deposit program?
 15 A No, we don't have any role in that and we've
 16 actually asked Bruce at the next board meeting to explain to
 17 us what other businesses they have that are outside the
 18 purview of us, just so we could understand when he makes
 19 certain comments, the context of those comments.
 20 Q Do you have any role or have you had any role
 21 with respect to the Reserve's Bank Sweep program?
 22 A No.
 23 Q Are you aware of the creation after September
 24 15th, this fall, of an entity called Double Rock?
 25 A No.

1 November at a rate of \$15,000 a month, not for December,
 2 there was a regular quarterly meeting in December. There
 3 will be a quarterly meeting next week that was originally
 4 scheduled for March. We will be paid the normal quarterly
 5 fee for that meeting and \$15,000 for January and the hope of
 6 all of us is that as we get further into this year they'll be
 7 less and less conversations, less and less meetings and we
 8 won't get paid anything on a monthly basis and hopefully the
 9 funds will liquidate and there won't be any more quarterly
 10 meetings and we can all move on with our lives.
 11 Q My understanding is prior to the 15th certain
 12 board members, and I believe you're one of them, were paid
 13 additional funds for roles on the audit committee or other
 14 functions. Is that right?
 15 A I am paid as chair of the audit committee and the
 16 new arrangement also pays the other two members of the audit
 17 committee meeting fees. I do not get paid meeting fees.
 18 Q Who are those two?
 19 A Santa Albococca and Ron Artenian.
 20 Q What are their additional fees?
 21 A I think they get \$3,000 a meeting, audit
 22 committee meetings. Next week for the regular board meeting
 23 they would get \$3,000 more than the rest of the board members
 24 that aren't on the audit committee.
 25 MR. SCHIEREN: That are not on the audit

1 Q Are you aware that the Bents are moving their
 2 programs, like their Bank Sweep program, an insured deposit
 3 program, into entities that don't bear the Reserve name?
 4 A No.
 5 Q Do you know who oversees from an operational
 6 standpoint either the insured deposit or the Bank Sweep
 7 program?
 8 A No.
 9 MR. BIRNBAUM: Let's go off the record at 2:03.
 10 (Whereupon, a recess was taken.)
 11 MR. BIRNBAUM: Back on the record at 2:08. Mr.
 12 Montgoris, am I correct in stating that while we were off the
 13 record you did not discuss the substance of this matter with
 14 the staff?
 15 THE WITNESS: Correct.
 16 BY MR. BIRNBAUM:
 17 Q Do you as a trustee have any insurance that
 18 covers you in your role as a trustee for the Primary Fund or
 19 the Yield Plus fund?
 20 A We do.
 21 Q Do you know what the limits of that insurance
 22 are?
 23 A \$10 million.
 24 Q Is it per trustee or in the aggregate?
 25 A In the aggregate.

1 Q Are there any limitations in terms of per lawsuit
 2 or \$10 million per issue for all trustees?
 3 A I don't know the details in that matter but at
 4 present it's \$10 million but the reality is it's being taken
 5 up by all the legal fees.
 6 Q And do you know if that \$10 million has already
 7 been spent?
 8 A I don't believe it's been all spent but a
 9 substantial portion of it.
 10 Q Do you know who pays for that insurance?
 11 A No, I don't. I'm not sure if it's the management
 12 of the company or the funds.
 13 Q What is your understanding as to who will pay the
 14 legal fees if that \$10 million is burnt through?
 15 MR. SCHIEREN: Legal fees for the trustees?
 16 MR. BIRNBAUM: For the trustees.
 17 Q Specifically my question is whether there's any
 18 agreement with RMCI or any other entity to cover your legal
 19 fees or if you've been told you're covering yourself or
 20 something different?
 21 A No, we're indemnified by the funds.
 22 Q Is that by some agreement?
 23 A I think it's in the prospectus.
 24 Q Other than the prospectus is there any agreement
 25 you're aware of that speaks to whether and how the trustees

1 CERTIFICATE
 2
 3 I, Peggy Miller, hereby certify that the foregoing
 4 transcript consisting of 128 pages is a complete, true and
 5 accurate transcript of the investigative hearing, held on
 6 Tuesday, February 10, 2009 at 3 World Financial Center, New
 7 York, New York, in the matter of The Reserve Fund. I further
 8 certify that this proceeding was recorded by Thanus Stevenson
 9 and that the foregoing transcript has been typed and
 10 proofread by me.
 11
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 17 _____
 18 Typist/Proofreader Date
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1 are covered for any legal expenses?
 2 A Not to my knowledge.
 3 Q Is there anything -- any answer you'd like to
 4 supplement or clarify from your testimony today?
 5 A No.
 6 MR. BIRNBAUM: Then on behalf of the staff and
 7 the Commission we truly appreciate your coming in. Thank you
 8 for that. We will go off the record at 2:10.
 9 (Whereupon, at 2:10 p.m. the hearing was
 10 adjourned.)
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