

FTI Responds Immediately on Refco Matter

Refco is a New York based financial services company and commodity brokerage that filed for bankruptcy in 2005 after it was discovered that its CEO, Phillip R. Bennett, had transferred nearly a half billion dollars of uncollectible accounts receivable from the company's books to an outside entity controlled by Mr. Bennett. FTI was instrumental in responding at a moment's notice to conduct a 250 electronic asset (over 7 terabyte) collection effort across several high importance custodians and corporate systems over the course of a weekend, at the request of the company's board of directors and Latham & Watkins, Refco's outside counsel.

Background

Refco, founded in 1969 as "Ray E. Friedman and Co.", is primarily known as a broker of futures contracts and commodities. On August 11, 2005, Refco completed its initial public offering with the sale of 26.5 million shares priced at \$22 per share. By the close of the first day of trading, shares had increased 25% with a company valuation of roughly \$3.5 billion. Refco was considered to be a strong company, with solid 33% average annual growth for the 4 years prior to the offering.

FTI's Immediate Response

Late in the day on Friday, October 7, 2005, FTI was contacted by Refco's audit committee counsel to assist in a major internal investigation based around potential fraud at the very highest level of the organization.

Within minutes, FTI Computer Forensics consultants were on the ground at Refco headquarters collecting data from several high importance custodians. This included data collection from over 250 media assets including laptops, servers, transactional and other legacy back office systems.

Reconstructing The Electronic Evidence

FTI deployed multiple teams of engineers and accountants to perform forensic analysis around the clock that weekend. One team worked to reconstruct complex financial and back office transactions while another streamed file and email data into Attenex for processing and document review.

FTI's forensic accountants assisted in the following ways:

- Analysis of activities related to executive compensation payments
- Extensive review and analysis of account statements, wire transfers, general ledger reports (directly from Oracle-based PeopleSoft databases), transaction memos and other supporting documentation to determine the flow of funds between Refco entities and other entities between 2000 and 2005
- Restoration of recorded telephone conversations that occurred on its trading floor and conversion to reviewable format for subsequent analysis

FTI's computer forensics team acquired and extracted the custodian data from personal computers, network drives, email servers, financial database systems, BlackBerrys, and backup stores.

Problem:

Respond to audit committee request over the weekend to investigate potential fraud that may go to the very top of the newly public Refco, a New York-based financial services company that had a market cap of \$3.5 billion.

Solution:

Deploy FTI Technology consultants within minutes to collect, process and analyze complex transactional and document data: over 7 terabytes of ESI. Use Attenex Patterns and Ringtail Legal to review and produce the data quickly.

Results:

Within just three days of the initial collection, FTI was able to produce a report that allowed the board and audit committee to limit further damage. A week later, Refco declared bankruptcy, one of the largest in US history.

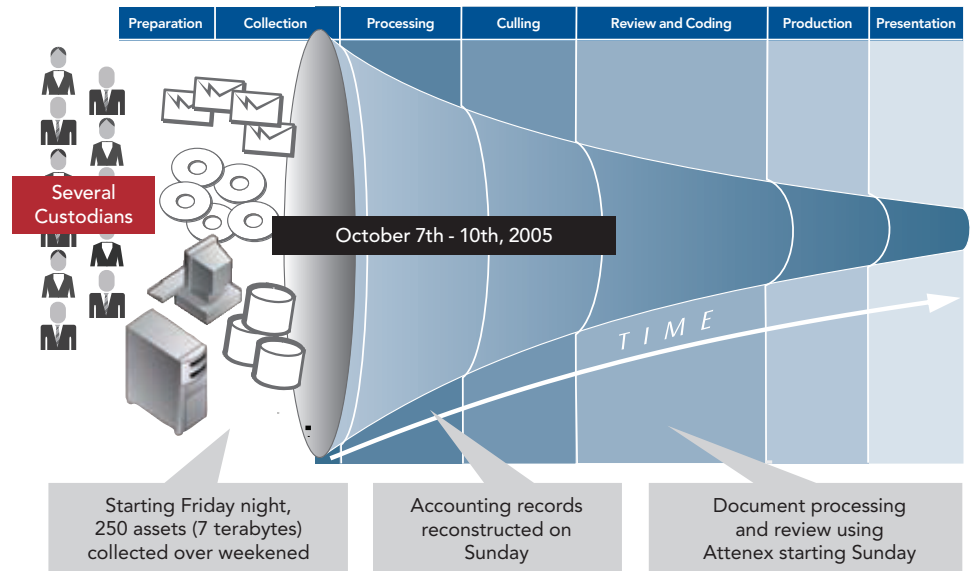
"FTI's highly-skilled professionals combine computer forensics capabilities and forensic accounting abilities, which were instrumental in helping our attorneys to quickly understand the magnitude of the Refco matter. FTI is unique in its ability to quickly engage, analyze complex transactions from a wide variety of electronic sources, and provide an assessment within a limited time frame."

- David M. Brodsky, Latham & Watkin

Over seven terabytes of data was collected and processed, deduplicated and loaded into both Attenex and Ringtail to provide attorneys at Latham and Watkins the ability to:

- Perform searches on the documents in a variety of ways including searching by keyword, sort documents by date, witness or other criteria
- Mark documents as privileged or redacted
- Designate documents for production or any number of other tasks attendant to the document discovery process

On Monday, October 10, 2005, FTI provided Refco's outside counsel the opportunity to examine critical evidence related to the case.



The Scandal

On Monday, October 10, 2005, Refco's board announced that Phillip R. Bennett, Refco's CEO and Chairman, had transferred \$430 million to a separate company he controlled, and had hid that information from the company's auditors and board. Mr. Bennett had agreed to take an immediate leave of absence.

Within the coming days, FTI's forensic analysis shed more light on the malfeasance. It appeared that between 2002 and 2005, Mr. Bennett had bought bad debts from Refco in order to prevent corporate write-offs, then paid for the bad loans with money borrowed by Refco itself. The company subsequently announced the need to restate its financial statements back to 2002.

As a result, a number of other investigations ensued, and on October 12, 2005, Mr. Bennett was arrested and charged with securities fraud. Only a few days later on Monday, October 17, 2005, Refco declared bankruptcy. Though Refco's shares had been trading at \$28 per share, on October 19 they dropped to \$0.80 per share, prompting the New York Stock Exchange to halt trading.

When Refco entered Chapter 11 bankruptcy, it declared assets of roughly \$49 billion, making it at the time the fourth largest bankruptcy filing in US history. Shortly after its filing, Refco resubmitted a revised filing declaring assets of only \$16.5 billion with \$16.8 billion in liabilities, with a plan to sell its regulated futures and commodities business, which ultimately was purchased by Man Financial on November 10, 2005.

In Summary

FTI's Computer Forensic consultants were deployed within minutes to collect, process and analyze complex transactional and document data at the request of Refco's board and outside counsel. Within just three days of the initial collection, FTI provided an initial report to the board on money transfers and accounts outside of Refco.

For More Information or to Schedule a Demo

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