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11 **UNITED STATES OF AMERICA**
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13 **BEFORE THE**
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15 **SECURITIES AND EXCHANGE COMMISSION**

16 In the Matter of

17 J.S. OLIVER CAPITAL MANAGEMENT,
18 L.P., IAN O. MAUSNER, AND DOUGLAS F.
19 DRENNAN,

20 Respondents.

21 **File No. 3-15446**

22 **ANSWER OF DOUGLAS F. DRENNAN**
23 **TO ORDER INSTITUTING**
24 **ADMINISTRATIVE CEASE-AND-**
25 **DESIST PROCEEDINGS**

1 Respondent Douglas F. Drennan (“Drennan” or “Respondent”), through his attorneys, Alto
2 Litigation, PC respectfully answers the allegations contained within the Securities and Exchange
3 Commission’s (“Commission”) Order Instituting Administrative Cease-and-Desist Proceedings
4 (“Order”) herein as follows. In providing this unsworn and nontestimonial Answer through
5 undersigned counsel, Drennan does not intend to, and does not, waive any privileges in this or any
6 other proceeding, including but not limited to the privilege against self-incrimination guaranteed
7 to him by the Fifth Amendment to the United States Constitution. Drennan expressly reserves the
8 right to assert any such applicable privileges in this or other proceedings.

9 **I. RESPONSES APPLICABLE TO ALL ALLEGATIONS**

10 A. Drennan denies any allegation in the Complaint, explicit or implicit, that Drennan
11 participated and substantially assisted in the misuse of client commission credits called “soft
12 dollars,” or willfully aided and abetted any third parties engaged in such conduct.

13 B. Drennan denies that it is “appropriate and in the public interest” to bring this
14 proceeding as it applies to him in Section I of the Order.

15 **II. RESPONSES TO PARTICULAR ALLEGATIONS**

16 1. To the extent the allegations in paragraph 1 consist of legal conclusions, no
17 response is necessary or required. To the extent a response is required, Drennan admits he was an
18 outside research analyst for J.S. Oliver. Drennan denies the remaining allegations in paragraph 1
19 as they relate to him. Drennan lacks knowledge or information sufficient to form a belief as to the
20 truth of the allegations in paragraph 1 that do not relate to him.

21 2. Drennan lacks knowledge or information sufficient to form a belief as to the truth
22 of the allegations in paragraph 2.

23 3. To the extent the allegations in paragraph 3 consist of legal conclusions, no
24 response is necessary or required. To the extent a response is required, Drennan admits that he
25 owned a company named Powerhouse Capital, Inc. (“Powerhouse”), and that J.S. Oliver Capital
26 Management (“JSO”) compensated Powerhouse approximately \$480,000 for research services.
27 Drennan denies the remaining allegations in paragraph 3 as they relate to him. Drennan lacks

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1 knowledge or information sufficient to form a belief as to the truth of the remaining allegations in
2 paragraph 3.

3 4. Drennan admits that JSO has its principal place of business in San Diego, CA.
4 Drennan denies that JSO has approximately \$115 million in assets under management. Drennan
5 lacks knowledge or information sufficient to form a belief as to the truth of the allegations in
6 paragraph 4.

7 5. Drennan lacks knowledge or information sufficient to form a belief as to the truth
8 of the allegations in paragraph 5.

9 6. Drennan admits he was the sole owner of Powerhouse. Drennan admits he was an
10 employee of Powerhouse; his wife Jennifer Drennan was an unpaid secretary of Powerhouse.
11 Drennan admits Powerhouse provided independent research and analysis to JSO, from February
12 2009 to June 2011. Drennan admits that he was an employee of JSO from January 2004 until
13 approximately May 2008, and re-joined JSO as an employee again in June 2011. Drennan admits
14 he has been a portfolio manager and chief compliance officer of JSO since June 2011. Drennan
15 denies any other allegations in paragraph 6.

16 7. Drennan admits that Powerhouse is a California Corporation formed in 2009, with
17 its principal place of business in San Diego, CA. Drennan admits that he formed Powerhouse as a
18 research consulting firm and acted as its president, vice president and chief operating officer.
19 Drennan also admits that his wife replaced him as secretary of Powerhouse shortly after its
20 formation. Drennan admits Powerhouse had no other employees and JSO was its only client.

21 8. Drennan lacks knowledge or information sufficient to form a belief as to the truth
22 of the allegations in paragraph 8.

23 9. To the extent the allegations in paragraph 9 consist of legal conclusions, no
24 response is necessary or required. Drennan otherwise lacks knowledge or information sufficient
25 to form a belief as to the truth of the allegations in paragraph 9.

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1 10. To the extent the allegations in paragraph 10 consist of legal conclusions, no
2 response is necessary or required. Drennan otherwise lacks knowledge or information sufficient
3 to form a belief as to the truth of the allegations in paragraph 10.

4 11. To the extent the allegations in paragraph 11 consist of legal conclusions, no
5 response is necessary or required. Drennan otherwise lacks knowledge or information sufficient
6 to form a belief as to the truth of the allegations in paragraph 11.

7 12. To the extent the allegations in paragraph 12 consist of legal conclusions, no
8 response is necessary or required. Drennan otherwise lacks knowledge or information sufficient
9 to form a belief as to the truth of the allegations in paragraph 12.

10 13. Drennan lacks knowledge or information sufficient to form a belief as to the truth
11 of the allegations in paragraph 13.

12 14. To the extent the allegations in paragraph 14 consist of legal conclusions, no
13 response is necessary or required. To the extent that paragraph 14 purports to quote from written
14 documents, those documents speak for themselves. Drennan lacks knowledge or information
15 sufficient to form a belief as to the truth of the remaining allegations in paragraph 14.

16 15. To the extent the allegations in paragraph 15 consist of legal conclusions, no
17 response is necessary or required. Drennan otherwise lacks knowledge or information sufficient
18 to form a belief as to the truth of the allegations in paragraph 15.

19 16. To the extent the allegations in paragraph 16 consist of legal conclusions, no
20 response is necessary or required. Drennan lacks knowledge or information sufficient to form a
21 belief as to the truth of the allegations in paragraph 16.

22 17. To the extent the allegations in paragraph 17 consist of legal conclusions, no
23 response is necessary or required. To the extent that paragraph 17 purports to quote from written
24 documents, those documents speak for themselves. Drennan lacks knowledge or information
25 sufficient to form a belief as to the truth of the allegations in paragraph 17.

26 18. Drennan admits that JSO provided the Soft-Dollar Broker with the CGF offering
27 memorandum. Drennan also admits that JSO also earned soft-dollar credits through the trades of

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1 individual clients and the JS Partners Funds. Drennan denies the remaining allegations in
2 paragraph 18.

3 19. Drennan admits that JSO requested that the Soft-Dollar Broker reimburse JSO for
4 approximately \$329,365 using soft-dollar expenses for a payment to Mausner's ex-wife. Drennan
5 lacks knowledge or information sufficient to form a belief as to the truth of the remaining
6 allegations in paragraph 19.

7 20. Drennan admits he drafted an email to the Soft-Dollar Broker at the request of Ian
8 Mausner, which document speaks for itself. Drennan lacks knowledge or information sufficient to
9 form a belief as to the truth of the remaining allegations in paragraph 20.

10 21. Drennan denies the allegations in paragraph 21.

11 22. Drennan denies the allegation in paragraph 22.

12 23. Drennan lacks knowledge or information sufficient to form a belief as to the truth
13 of the allegations in paragraph 23.

14 24. Drennan admits that JSO conducted business in a building that included Mausner's
15 residence at certain points in time. Drennan lacks knowledge or information sufficient to form a
16 belief as to the truth of the allegations in paragraph 24.

17 25. Drennan lacks knowledge or information sufficient to form a belief as to the truth
18 of the allegations in paragraph 25.

19 26. To the extent the allegations in paragraph 26 consist of legal conclusions, no
20 response is necessary or required. Drennan lacks knowledge or information sufficient to form a
21 belief as to the truth of the allegations in paragraph 26.

22 27. Drennan lacks knowledge or information sufficient to form a belief as to the truth
23 of the remaining allegations in paragraph 27.

24 28. To the extent the allegations in paragraph 28 consist of legal conclusions, no
25 response is necessary or required. Drennan otherwise denies the allegations in paragraph 28.

26 29. To the extent the allegations in paragraph 29 consist of legal conclusions, no
27 response is necessary or required. To the extent a response is required, Drennan admits receiving

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1 payment from JS Oliver for services performed in 2009 and 2010 and admits that he drafted
2 Powerhouse invoices. Drennan lacks knowledge or information sufficient to form a belief as to
3 the truth of the allegations in paragraph 29.

4 30. To the extent the allegations in paragraph 30 consist of legal conclusions, no
5 response is necessary or required. Drennan admits he had previously worked for JSO from 2004
6 until 2008 and then worked at a different firm for approximately six months. Drennan denies the
7 remaining allegations in paragraph 30.

8 31. To the extent the allegations in paragraph 31 consist of legal conclusions, no
9 response is necessary or required. Drennan lacks knowledge or information sufficient to form a
10 belief as to the truth of the allegations in paragraph 31.

11 32. Drennan lacks knowledge or information sufficient to form a belief as to the truth
12 of the allegations in paragraph 32.

13 33. To the extent the allegations in paragraph 33 consist of legal conclusions, no
14 response is necessary or required. To the extent a response is required, Drennan lacks knowledge
15 or information sufficient to form a belief as to the truth of the allegations in paragraph 33.

16 34. Drennan lacks knowledge or information sufficient to form a belief as to the truth
17 of the allegations in paragraph 34.

18 35. To the extent the allegations in paragraph 35 consist of legal conclusions, no
19 response is necessary or required. To the extent a response is required, Drennan lacks knowledge
20 or information sufficient to form a belief as to the truth of the allegations in paragraph 35.

21 36. Drennan lacks knowledge or information sufficient to form a belief as to the truth
22 of the allegations in paragraph 36.

23 37. The allegations in paragraph 37 consist of legal conclusions to which no response is
24 required.

25 38. The allegations in paragraph 38 consist of legal conclusions to which no response is
26 required. To the extent a response is required, Drennan denies the allegations in this paragraph.

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SECOND AFFIRMATIVE DEFENSE

(Reliance on Experts)

Drennan is not liable for the actions and conduct alleged in the Order because Drennan reasonably relied on the advice of experts, including attorneys, in the performance of such acts and conduct.

THIRD AFFIRMATIVE DEFENSE

(Statutes of Limitations)

One or more of the causes of action pleaded in the Order are barred by the applicable statute of limitations.

FOURTH AFFIRMATIVE DEFENSE

(Compliance with Applicable Statutes or Regulations)

At all times, Drennan reasonably followed or adhered to all compliance and supervisory procedures as well as all applicable rules.

FIFTH AFFIRMATIVE DEFENSE

(Good Faith Conduct)

Drennan, in discharging his duties, acted in good faith and exercised at all times the degree of care, diligence, and skill which ordinarily prudent persons would exercise in similar circumstances and like positions. Alternatively, with respect to any alleged violations that require a specific state of mind, Drennan lacked such specific state of mind.

SIXTH AFFIRMATIVE DEFENSE

Drennan reserves the right to amend this Answer and assert any additional affirmative or special defenses that may exist, as they become known.

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1 **IV. CONCLUSION:**


2 For all of the reasons set forth above, Respondent respectfully submits that the
3 Administrative Law Judge (“ALJ”) grant the relief requested herein for:

- 4 a. An Initial Decision for Respondent, thereby dismissing the allegations contained
5 within the Order in their entirety as they pertain to him;
- 6 b. Enter judgment in favor of Mr. Drennan and an order that the Commission shall
7 recover nothing;
- 8 c. Award to Drennan the costs incurred to defend this action, including reasonable
9 attorneys’ fees;
- 10 d. Award such other and further relief as the Commission deems just and proper.

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Dated: September 30, 2013

Respectfully submitted,
ALTO LITIGATION, PC

By: 
Bahram Seyedin-Noor
Counsel for Respondent Douglas Drennan