

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

**ADMINISTRATIVE PROCEEDING**

**File No. 3-15974**

**RECEIVED  
JAN 26 2015  
OFFICE OF THE SECRETARY**

**In the Matter of**

**NATURAL BLUE  
RESOURCES, INC., JAMES  
E. COHEN, AND JOSEPH A.  
CORAZZI,**

**Respondents.**

*Revised*

**DIRECT TESTIMONY OF ROBERT M. DAINES**

**Q1. Please state your name.**

A. My name is Robert M. Daines

**Q2. What is your current address?**

A. My business address is Stanford Law School, 559 Abbott Way, Stanford, CA 94305.

**Q3. In providing testimony for the Division, do you swear to tell the truth, under the pains and penalties of perjury?**

A. Yes.

**Q4. What is your current occupation?**

A. I am the Pritzker Professor of Law and Business at Stanford Law School, Professor of Finance – Stanford Graduate School of Business (by courtesy), and Co-Director of the Rock Center for Corporate Governance at Stanford.

**Q5. Have you ever served as an expert witness before you were retained in this matter? If so, please identify the cases and the capacities in which you served as an expert (e.g., deposition, trial, etc.)?**

A. Yes, I have previously served as an expert in a number of cases. They are:

Starr International Company, Inc., et al. v. The United States, U.S. Court of Federal Claims, deposition and trial testimony (2014)

United States v. BP Exploration & Production, Inc., et al, Penalty Phase, United States District Court, Eastern District of Louisiana, deposition (2014)

Allergan, Inc., et al., v. Valeant Pharmaceuticals International, Inc. et al., United States District Court, Central District of California, Southern Division, Santa Ana, declaration and deposition (2014)

R. Mancuso v. The Clorox Company et al., Superior Court of California, County of Alameda, deposition (2013)

In re Intermec, Inc. Shareholder Litigation, Superior Court of Washington in and for Snohomish County, deposition (2013)

In the matter of the application of The Bank of New York Mellon et al., Supreme Court of The State of New York, County Of New York, deposition and trial testimony (2012-13)

N. Gordon, on behalf of herself and all others similarly situated v. Symantec Corporation, Superior Court of the State of California, County of Santa Clara, deposition (2012)

In re Refco, Inc. Securities Litigation, U.S. District Court for Southern District of New York, deposition (2012)

In re McAfee, Inc. Shareholder Litigation, Superior Court of California, County of Santa Clara, deposition (2012)

Brady and O'Brien v. UBS Financial Services, Inc. and Greater Southwestern Funding Corp., United States District Court, Northern District of Oklahoma, deposition (2012)

Paley and Word Diamond v. Radar Networks et al., Superior Court of California, County of San Mateo, deposition (2012)

Salina-Spavinaw Telephone Company v. George K. Baum Advisors et al., deposition (2012)

Securities and Exchange Commission v. Alfred S. Teo, Sr., et al., United States District Court, District of New Jersey deposition and trial testimony (2011)

In re Professional Satellite and Communication, LLC bankruptcy: Nancy Wolf, Trustee v. Nayna Networks, Inc. et al., deposition (2011)

Industrial Technology Ventures, LP v. Pleasant T. Rowland Revocable Trust et al., United States District Court, Western District of New York, deposition (2011)

NACCO Industries v. Applica, Harbinger Capital Partners et al., Delaware Chancery Court, deposition (2010)

In re Mentor Corporation Shareholder Litigation, Superior Court of California, County of Santa Barbara, deposition (2010)

In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, United States District Court, Eastern District of New York, deposition (2010)

Cisco Systems v. JR Rivers, arbitration testimony (2010)

ING USA Annuity v. J.P. Morgan Securities, Inc., Superior Court of Georgia, deposition (2009)

Omnicare, Inc. v. UnitedHealth Group, Inc., United States District Court, Northern District of Illinois, deposition (2008)

In re National Century Financial Enterprises, Inc. Investment Litigation, United States District Court, Southern District of Ohio, deposition (2008)

**Q6. Has any of your prior testimony related to corporate governance?**

A. Yes, most of my prior testimony is related to corporate governance topics.

**Q7. Please briefly describe your education, starting after high school.**

A. I attended Brigham Young University where I received a BS in Economics and a BA in American Studies with University Honors (Highest Distinction). I then attended Yale Law School from 1989 to 1992, earning a J.D.

**Q8. After graduation from Yale Law School, what was your first employment?**

A. From 1992-1993, I was a law clerk for the Honorable Ralph K. Winter, United States Court of Appeals for the Second Circuit.

**Q9. Where did you work next?**

A. After my clerkship, I did postgraduate research at Yale Law School on the economic analysis of law.

**Q10. Where did you work next?**

A. From 1993 to 1997 I was an Associate in Leveraged Finance at Goldman Sachs & Company where I assisted firms with bank and bond financings.

**Q11. Where did you work after Goldman Sachs?**

A. Starting 1997 and continuing to 2004, I was a Law Professor at NYU School of Law and during my tenure there, I visited at Columbia Law School (Visiting Olin Fellow, 1999) and Yale Law School (Visiting Professor, 2001).

**Q12. Where did you work after NYU School of Law?**

A. In 2004, I was hired by Stanford Law School as the Pritzker Professor of Law and Business.

**Q13. Please describe your position as the Pritzker Professor of Law and Business at Stanford Law School.**

A. I regularly teach the basic Corporations course, including mergers and acquisitions, as well as advanced courses on the economic analysis of complex transactions, international business transactions, corporate governance, and corporate finance. Some of these classes are listed in both the law school and the business school.

I also co-teach a course that introduces Stanford graduate students and business students to corporate governance, mergers & acquisitions, and some of the research on empirical corporate finance.

**Q14. Your curriculum vitae also indicates that you are the Co-Director of the Rock Center for Corporate Governance at Stanford Law School. Please describe what that position entails.**

A. The Rock Center is a joint project of Stanford Law School and Stanford Graduate School of Business. The Center conducts and funds high quality academic research on corporate governance and financial markets, provides training and education to a variety of public audiences including policy makers, regulators, journalists, board members or directors, lawyers and business people, and develops training materials for use in business school and law school classrooms.

**Q15. Do you provide training to corporate board members on Corporate Governance topics?**

A. Yes, I teach several times a year in a program called the Directors' Consortium which is a joint effort of Stanford Law School, Stanford Graduate School of Business, the University of Chicago Booth School of Business, and the Tuck School of Business at Dartmouth. I have covered such topics as the duties of directors and officers, mergers and acquisitions, and executive compensation. I sometimes also provide training to individual boards or board members. Attendees include directors of public companies, including Fortune 500 companies.

**Q16. Please briefly describe your research, lectures and teaching relating to corporate governance, particularly respecting public companies.**

A. My research is on corporate governance and the intersection of law and finance. I have written on the market for corporate control and on governance mechanisms that shape control of the firm and its resources. I have also written on mergers, shareholder voting, proxy advisors, executive compensation, and corporate law. All of these subjects are applicable or relate in some way to public companies.

My publications have appeared in the top journals in my field and one of my papers was named an All Star Paper at the Journal of Financial Economics. That paper and others have been peer reviewed. I have also been a referee for the Journal of Finance, the Journal Financial Economics, the Journal of Legal Studies, Journal of Financial and Quantitative Analysis, among others.

In addition to my publications and teaching, I am often invited to speak about corporate governance and empirical corporate finance to groups of investors, corporate directors, journalists, or lawyers both domestically and internationally.

As I discussed above, I regularly train directors as part of a program run by business schools of Stanford, the University of Chicago, and Dartmouth and Stanford Law School. I provide training on corporate governance, mergers and acquisitions, and review recent research on empirical corporate finance. This training takes place about three to four times a year and involves up to several hundred participants each year, many of whom are public company board members and/or executives.

**Q17. Are you receiving assistance with your work on this case?**

A. Yes, I am being assisted by a consulting firm called Compass Lexecon.

**Q18. Please describe your role with Compass Lexecon.**

A. I became affiliated with Compass Lexecon as a Senior Consultant in 2013. If Compass Lexecon becomes involved in a case they believe would benefit from my expertise, they ask me to get involved as an expert. Similarly, if I am approached on a case, I can ask Compass Lexecon to assist me.

**Q19. Are you aware that this case involves the issue of whether certain individuals performed the functional duties typically performed by corporate officers and/or directors?**

A. Yes.

**Q20. Through your Co-Directorship of the Rock Center for Corporate Governance, academic research, lectures, and classroom instruction, have you had occasion to research and teach courses on corporate governance and the role of corporate officers and directors?**

A. Yes, as I stated above, many of my courses and publications cover this subject and I am frequently asked to lecture on corporate governance subjects to a variety of audiences. This is a topic I follow as part of my teaching and research interests. I also provide training for public company directors and executives.

**Q21. Describe the discipline of corporate governance.**

A. Generally speaking, corporate governance is the set of rules, norms, contracts and institutions that align the interests of a company's managers with its owners (shareholders).

The need for corporate governance in public firms arises because shareholders lack the skills, time, incentive, and information to monitor managers and control the firm. Even though it is shareholders' collective interest to monitor managers and assure they are honest and hard-

working, it is not necessarily in each shareholder's individual interest.<sup>1</sup> Thus, although shareholders own the company, managers control it. This is called the separation of ownership and control and, as a result, self-interested executives may seek their own interest at shareholder expense. The problem that a company's officers and directors (the firm's agents) may not act in shareholders' interest is called an "agency problem," with the costs resulting from this problem described as "agency costs."

To lessen "agency costs," controls, incentives, or monitoring systems are put in place in the organization. That system of checks and balances is called corporate governance.<sup>2</sup> The purpose of corporate governance is to try to reduce these "agency costs," by aligning the interests of managers and shareholders, and to see that shareholders get a return on their investment.

A firm's governance provisions can be found in the firm's charter, bylaws, contracts, capital structure and practices, including meeting requirements, its processes for collecting information about the firm's operations and prospects, and procedures for making sensible decisions and for excluding those who face a debilitating conflict of interest.

A great deal of academic work, both theoretical and empirical, has been done to describe and evaluate the various mechanisms that affect the relationship between directors and shareholders.

**Q22. Describe, broadly, the typical role of the Board of Directors of a public company.**

**A.** The Board of Directors is elected by shareholders to represent the interests of shareholders and it has two key roles: an advisory role--to provide strategic leadership or advice, and an oversight role--to supervise the company and its managers on behalf of shareholders.

Board members typically help to:

- Oversee the firm's managers who manage the firm's day to day operations;
- Select, evaluate, and if necessary replace the Chief Executive Officer (CEO);
- Make major strategic decisions (M&A, capital investment; sale of major assets);
- Evaluate the firm's financial situation;
- Determine CEO pay;
- Nominate new board members;
- Advise on shareholder relations;
- Advise on compliance programs.<sup>3</sup>

<sup>1</sup> See, e.g., Robert M. Daines & Michael Klausner, *Economic Analysis of Corporate Law*, in Vol. 2 The New Palgrave Dictionary of Economics, (Lawrence E. Blume & Stephen Durlauf, eds., 2d ed. 2008) at 257-259.

<sup>2</sup> See, e.g., David Larcker and Brian Tayan, *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*, (1st ed. 2011) at 4.

<sup>3</sup> See, e.g., Steen Thomsen, *An Introduction to Corporate Governance: Mechanisms and Systems* (1<sup>st</sup> Edition, 2008) at Chapter 6.

In short, the Board is collectively responsible for the overall direction of the company and its senior executives. Typically, this is done by delegating responsibilities to the firm's senior executives and to committees of the Board of Directors. The responsibilities of directors are distinct from those of management. Directors advise management on corporate strategy but do not generally develop the strategy in detail. They are expected to be familiar with the company's financial condition, but typically do not prepare the statements themselves.

Under state corporate law, including Delaware law, the Board of Directors has a legal obligation to act in the interest of the corporation and its shareholders.<sup>4</sup> The primary duties of the Board are embodied in the broad principle of fiduciary duty (primarily a duty to take care and to act loyally and serve the interests of the firm).<sup>5</sup>

**Q23. Describe, broadly, the typical role of the Chairman of the Board of Directors and other board members of a public company.**

- A. The Chairman is responsible for running the Board. His/her role may include:
- Presiding over board meetings;
  - Scheduling meetings, planning agendas, and distributing materials in advance of meetings;
  - Board governance, including succession planning and director recruitment;
  - Helping to set and communicate the firm's priorities and strategic plans;
  - Evaluating management performance, management and director compensation and merger-related activity.<sup>6</sup>

The Chairman of the Board may or may not be an officer of the company. Sometimes, the title is given to the director who is chosen to preside at meetings, without also making the director an officer.

When the Chairman is also an officer of the company, that person is often the corporation's Chief Executive Officer. If there is also a president, the President would typically have the power to bind the corporation in connection with its usual course of business.

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<sup>4</sup> Natural Blue Resources, Inc. was incorporated in Delaware.

<sup>5</sup> See, e.g., David Larcker and Brian Tayan, *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*, (1st ed. 2011) at Chapter 3.

<sup>6</sup> See, e.g., David Larcker and Brian Tayan, *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*, (1st ed. 2011) at 129; Steen Thomsen, *An Introduction to Corporate Governance: Mechanisms and Systems* (1<sup>st</sup> Edition, 2008) at 130-131.



**Q24. Describe generally what factors you would consider in evaluating whether an individual was behaving in a manner akin to a member of the Board of Directors of a public company.**

A. In general, I would compare the person's actions to the above descriptions of a board member's role.

I would ask whether the individual made decisions that must be made by the Board of Directors, such as the approval of mergers or major corporate transactions, change of control transactions, periodic financial reporting under the securities laws, and the hiring and firing of executive officers. These actions typically require board involvement and are considered Board level decisions.

**Q25. Describe, broadly, the typical role of the Chief Executive Officer of a public company.**

A. The CEO's economic function is to direct the business and operations of the firm.

As I noted earlier, shareholders of a public firm typically do not have the incentive and information necessary to control and manage the firm's day-to-day operations. The CEO is therefore hired to run the firm's business on shareholders' behalf and the Board monitors and advises the CEO in that task. Thus, the CEO is hired by and answers to the Board of Directors. The CEO is the highest ranking executive officer of the corporation and is responsible for the firm's operations and strategy and for managing the firm's senior executives.<sup>7</sup>

This expectation is expressed in Natural Blue Resources' bylaws:

The chief executive officer shall have the general executive responsibility for the conduct of the business and affairs of the Corporation. He shall exercise such other powers, authority, and responsibilities as the Board of Directors may determine. (Article III, Section 4).

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<sup>7</sup>The CEO may or may not also be the President or chair of the Board. When the Chairman and CEO roles are split, the chair of the Board is typically the company's highest-ranking officer. See, e.g., Practising Law Institute, Soderquist on Corporate Law and Practice, 4th Edition, Chapter 8 Corporate Authority, "8.4.3 Hierarchy Of Officers," at 8-39 to 8-40.

**Q26. Describe, broadly, the typical role of the President of a public company.**

A. The President is a high-ranking officer of a company, second only to the CEO and Chairman (though these roles can be held by one person). If there is a president, the President's specific roles are determined by the Board of Directors.

Natural Blue's by-laws define this typical role of the President: "The president shall have and exercise such powers, authority and responsibilities as the board of directors may determine." (Article III, Section 5).

**Q27. Describe, broadly, the typical role of the Chief Operating Officer of a public company.**

A. Not every company has a Chief Operating Officer (COO), but when they do, the COO is typically responsible for the day to day internal operations of their company and reports to the CEO of the company.

"Although reporting lines in companies vary with their organizational structures, commonly most business units and some staff areas (e.g., information technology, marketing, human resources, and procurement) report to the COO... In organizations that have a CEO/COO structure, the CEO is generally said to be responsible for external matters and for broad corporate issues such as vision, strategy, long-range planning, acquisitions, and corporate governance. In contrast, the COO's role is to function internally as the operational head of the company."<sup>8</sup>

**Q28. Describe, broadly, the typical role of the Chief Financial Officer of a public company.**

A. The Chief Financial Officer (CFO) of a public company is typically responsible for the books and records and official financial statements of the company, interacts with the audit committee of the Board of Directors and with the company's independent auditor. The Chief Financial Officer of a public company generally oversees the treasury functions of the corporation and the company's key financial decisions. The CFO may report to the CEO or the Board of Directors.<sup>9</sup>

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<sup>8</sup> Robert W. Kolb, Ed., *Encyclopedia of Business Ethics and Society*, (Sage Publications 2008) at 295-297.

<sup>9</sup> See, e.g., Practising Law Institute, *Soderquist on Corporate Law and Practice*, 4th Edition, Chapter 8 Corporate Authority, "8.4.3 Hierarchy Of Officers," at 8-38.

**Q29. Describe, broadly, the typical role of the Chief Information Technology Officer of a public company.**

A. A Chief Information Technology Officer of a public company is typically responsible for the decisions and strategy surrounding the company's product technology or technology infrastructure.

**Q30. Can the roles and responsibilities of corporate officers be impacted by the size of a public company?**

A. Yes.

**Q31. In what ways might the roles and responsibilities of corporate officers be impacted by the size of a public company?**

A. Distinctions between the roles and responsibilities of corporate officers might be less formal and more flexible in smaller companies.

**Q32. Describe generally what factors you would consider in evaluating whether an individual was behaving in a manner akin to a Chief Executive Officer, or other officer of a public company.**

A. I would be interested not simply in the person's title, but whether they served the economic function of an officer or CEO. As noted earlier, the CEO's typical economic function is to direct the firm's operations and business and to serve as the agent and authority for shareholders who often cannot effectively act for themselves.

I would also compare the person's actions to the above descriptions of a CEO or officer. I would look at the range of tasks the individual took on and try to determine whether the individual had "general executive responsibility for the conduct of the business and affairs of the Corporation" and control over the company's operations and strategic decisions. This would be a question of fact. Of course, senior executive officers often get advice and assistance from others who are not themselves senior officers, but I would not expect advisers and consultants to have control over the details of the company's operations and strategic decisions.

When determining whether an individual served the economic function of a Chief Executive Officer (or other officer), it may be important to note whether the individual in question controlled or directed the CEO (or other officer). The ability to control the CEO (or other officer) makes it more likely that the individual would be able to assume the economic functions of the CEO (or other officer).

While the CEO typically directs the firm's business, this can change when a shareholder (or a group of shareholders acting together) controls the Board of Directors. Because the CEO serves at the pleasure of the Board of Directors, someone who controls the Board can remove the CEO

at will or reduce the CEO's wages. This might give that person have influence over the CEO's actions. In the extreme, a person or group might threaten to remove the CEO (or reduce the CEO's compensation) for not complying with its wishes and might in fact exert control over the CEO. If the CEO did not make an independent determination of the merits of a particular action, but instead acted as directed by the controller(s), the CEO's title would be merely formal and real control would reside with the person or group that controlled the Board. Whether this happens is a factual question.

In short, if a person or group controlled the Board of Directors and thereby controlled the CEO's (or other officer's) decisions and if it effectively directed the details of the firm's business and operations, that person or group would assume the economic functions of the CEO (or other officer).

**Q33. Would an evaluation of whether an individual was behaving in a manner akin to a corporate board member lead to consideration of similar factors?**

A. Yes. An evaluation of similar factors would be relevant. Ultimately, if a shareholder or group controlled the board members' decisions and effectively directed the business of the Board of Directors, especially if it controlled decisions typically reserved to the Board of Directors, that shareholder or group would assume the economic functions of the board member.

**Q34. What information would be relevant when considering whether shareholders in fact control the CEO, other officer, or board member and have assumed the economic function of a CEO or other officer?**

A. To assess whether shareholders in fact control the CEO or other officer, it would be important to look at ownership of company and actions taken based on that ownership. If a shareholder (or group acting in concert) owned a majority of stock, they would have the power to control the membership of the Board. Control of the Board would make them able to also control the CEO and other officers. However, even a shareholder (or group acting together) that does not own a majority of the firm's stock, may still be able to control the Board (and thus the CEO and senior officers). This would be a factual question and the following factors might be relevant depending on the circumstances:

- Evidence regarding ownership
  - Did the shareholders own a large block themselves or were they able to control a large block of votes?
  - Did they have control over the largest shareholder block (or was there another bigger block holder that opposed their will)?
- Evidence regarding control over decisions and business operations

- Functionally, did the shareholders determine who would serve on the Board of Directors?
  - Did the shareholders direct who would be on the Board?
  - If the shareholders opposed a potential board member, did their opposition prevent the potential board member from getting on the Board?
  - Was a board member removed after opposing the shareholders?
- Functionally, did the shareholders determine who the CEO or other senior officers would be and set their compensation?
  - Did the shareholders choose the CEO or other officer?
  - Did the shareholders set the compensation for the CEO or other officer?
  - Was the CEO or other officer ever removed after opposing the shareholders?
- Did the shareholders in fact, control the Board, CEO, or other officers' decisions?
  - Did they direct the Board or the CEO to take particular actions?
  - Did they direct the Board to pay them excessive compensation?
  - Did they identify and negotiate major transactions and seek Board approval only as a "rubber stamp?" Or, did the Board exercise its independent business judgment on the transaction's merits?
  - Did they dictate the company's strategic direction?
  - Did they act as a gatekeeper with regard to the books and records of the company and disbursement of corporate funds?

**Q35. Who typically would be responsible for proposing candidates to serve as board members, CEO, President or other officers of a public company?**

A. Generally a company's charter/bylaws lay out the rules for Board of Directors nomination. Typically, there is a nominating committee of the Board of Directors that determines who will be put forward for shareholders to vote on. Shareholders sometimes propose candidates for the Board as well, though this is relatively rare in widely-held public company. Suggestions may also come from other board members.

Typically, the Board or a committee of the Board selects the candidates for executive officer positions such as CEO.

Frequently outside search firms are engaged to identify candidates to serve as CEO or on the Board.

**Q36. Who is typically charged with overseeing a public company's financial books and records, and financial statements?**

A. Generally, a public company has a Chief Financial Officer who is responsible for the books and records and official financial statements of the company, interacts with the audit committee of the Board of Directors and with the company's independent auditor.

**Q37. Who is typically charged with overseeing a public company's quarterly and annual SEC filings?**

A. Since the passage of Sarbanes Oxley, CEOs and CFOs are required to certify their financial reporting in their annual filings and penalties can be imposed if the information contained in the reports is found to be inaccurate.<sup>10</sup> Board members typically have an opportunity to review and comment on the company's periodic filings with the SEC.

**Q38. Who is typically responsible for setting corporate strategy and agendas at a public company?**

A. Typically, management sets the corporation's strategy, in consultation and with the advice of the Board of Directors.

**Q39. Are you aware that the Division of Enforcement has alleged that Respondents James E. Cohen and Joseph A. Corazzi exercised direct and indirect control over Natural Blue Resources, Inc. by**

- **Conceiving of, negotiating, and overseeing Natural Blue's reverse merger with Datameg through which Natural Blue became a public company;**
- **Choosing and, at times deciding to terminate, Natural Blue's President, Chief Executive Officer, and Chairman;**
- **Choosing Natural Blue's professional service providers;**
- **Conceiving of and overseeing private placements, and soliciting investors;**
- **Receiving vast majority of total compensation paid by Natural Blue;**
- **Directing the vast majority of Natural Blue's expenses;**
- **Setting corporate strategy, policies and agendas, including determining Natural Blue's business focus, identifying its acquisition targets and other investment opportunities, and negotiating transactions with those entities;**
- **Authorizing disbursement of funds;**
- **Possessing and overseeing Natural Blue's financial records, accountant, and auditors;**
- **Reviewing, revising, and supervising preparation of Natural Blue's SEC quarterly and annual filings;**
- **Overseeing content and functionality of Natural Blue's website;**
- **Serving as the primary contact for Natural Blue investors; and**
- **Negotiating corporate transaction whereby Natural Blue issued 35 million shares to the counterparty and its designees, and Natural Blue's directors and officers resigned and were replaced by executives of the counterparty;**
- **Determining whether the firm would go public.**

<sup>10</sup> See, e.g., Robert W. Kolb, Ed., *Encyclopedia of Business Ethics and Society*, Sage Publications (2008), at 286.

A. Yes. I am generally aware of these allegations.

**Q40. As part of your retention, were you asked to investigate whether Respondents Cohen and Corazzi, in fact, engaged in the corporate activities summarized above?**

A. No. I have not investigated whether, in fact, Respondents engaged in these activities.

**Q41. If someone engaged in the activities summarized in Question 38, would the conduct, taken together, constitute activities of a corporate officer or director?**

A. A person that did these things would be fulfilling the economic function of a corporate officer or director. I would not be surprised if consultants were used to help with many of these tasks. But a person making these decisions and controlling the firms' operations and business in this way would be acting as the economic equivalent of a CEO or senior officer.

**Q42. Please explain the basis of your opinion.**

A. This is based on my years teaching about and researching corporations, corporate governance and the organization and structure of complex corporate groups, as well as regularly talking to and training officers and directors of public firms. It is also based on an analysis of the economic function of a CEO, senior officer and board member.

**Q43. In your training and experience, have you encountered public companies that utilize business consultants?**

A. Yes, business consultants of all types are sometimes utilized by public companies.

**Q44. Are there certain "core" functions of officers and directors of a public company that would be unusual to outsource to business consultants?**

A. Although business consultants sometimes advise public companies, I am unaware of an instance where all of the key responsibilities of a public company Board of Directors and executives were entirely or substantially outsourced to consultants. For instance, I'm unaware of consultants who make the important decisions that law and custom reserve for the Board of Directors: hiring and firing the CEO, approving major mergers or acquisitions, effecting a change of control, determining whether a firm would go public, and directing the firm's operations and expenses.

**Q45. Would it be typical or unusual for business consultants to retain greater authority over a company's strategy, decision making and management than the company's own senior executives?**

A. Although companies frequently engage strategic consultants or outsource certain activities, it would be atypical and unusual for business consultants to retain greater authority or

control over a company's strategy, decision-making, and management than the company's own Board and its executive officers.

**Q46. In your experience with public companies, have you ever observed a situation where outside consultants must give their approval before major firm decisions can be made by corporate management?**

**A.** No. The Board may require the approval of others before acting themselves, but the consultant's approval would not trump the Board's decision.

**Q47. In your experience with public companies, have you ever encountered scenarios where major transactions were identified, negotiated, and substantially completed before involvement by any senior executive.**

No.

**Q48. What is a reverse merger?**

**A.** In general terms, a reverse merger is a merger between an active, privately held company and a publicly traded entity with limited operations. The merger is effectively a way for the private company to merge with and become a public company without going through an IPO.

Often, the shareholders of the private company ultimately own a majority of the shares of the combined entity. In such instances, the reverse merger may result in a change of control for the acquiring company. Sometimes this type of transaction is accomplished by merging a subsidiary of the acquirer into the target, thereby allowing the target company to remain in existence.



I declare under penalty of perjury that the foregoing is true and correct.

*Rob Daines*

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Robert M. Daines

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
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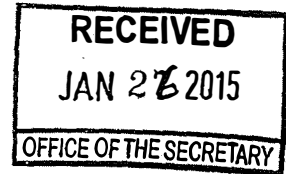


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100 F Street, N.E.  
Washington DC 20549

Re: *In the Matter of Natural Blue Resources, Inc., James E. Cohen, and  
Joseph Corazzi, Respondents*  
Administrative Proceeding File No. 3-15974

Dear Secretary Fields:

Relative to the above Administrative Proceeding, enclosed please find an original and three copies of the Division's Revised Exhibit List, Expert Report and Pre-Hearing Brief.

Very truly yours,

Stephanie DeSisto  
Paralegal

cc: Honorable Carol Fox Foelak (by electronic mail)  
Maranda Fritz (counsel for Respondent Cohen) (by electronic and overnight mail)  
Joseph Corazzi, *Pro Se* (by electronic and overnight mail)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Boston Regional Office  
33 Arch Street, 23<sup>rd</sup> Floor  
Boston, Massachusetts 02110-1424



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