

**Agreement Between RBC Capital Markets, LLC, and  
the Attorney General for the State of Texas**

This Settlement Agreement is made and entered into this 2nd day of October, 2014 (hereinafter, "Effective Date"), by and between RBC Capital Markets, LLC (hereinafter "RBCCM") and the Attorney General for the State of Texas (the "Attorney General").

WHEREAS, the Attorney General has been investigating potential violations of the antitrust laws in connection with FA services offered to MUDs issuing municipal bonds in the Houston Area (the "Attorney General's Investigation");

WHEREAS, the Attorney General is prepared to allege that RBCCM, Rathmann & Associates, L.P. ("Rathmann & Assoc."), and R. Craig Rathmann unreasonably restrained competition by entering into an agreement on March 28, 2003 allocating certain financial advisory ("FA") customers, agreeing not to solicit one another's existing financial advisory customers, and affecting the provision of Underwriting Services for MUD Refundings, thereby depriving certain MUDs of the benefits of competition ("the State's Allegations");

WHEREAS, based on information obtained in the Attorney General's Investigation, the Attorney General would be prepared to assert on behalf of the State of Texas all available claims for civil penalties, disgorgement, restitution, damages, and equitable relief under federal and state law arising from RBCCM's offering and performance of FA Services and Underwriting Services ("the State's Claims");

WHEREAS, RBCCM denies the State's Allegations and wrongdoing of any kind in its dealings with Rathmann & Assoc., R. Craig Rathmann or any MUD;

WHEREAS, RBCCM contends that the Boards of Directors for each of the 98 MUDs whose FA contract was assigned to Rathmann & Assoc. were required to, and did, vote to approve the assignment;

WHEREAS, in order to avoid further expense and the risks inherent in litigation, RBCCM and the Attorney General desire to settle the State's Claims;

WHEREAS, the Attorney General finds that the agreed relief and other provisions contained in this Settlement Agreement are appropriate and in the public interest;

NOW THEREFORE, in exchange for the mutual obligations described below, RBCCM and the Attorney General hereby agree as follows:

**DEFINITIONS**

1. "FA Services" shall mean services provided to a MUD by a financial advisor including, but not limited to, advice regarding the timing, structure, pricing, and terms of a MUD Refunding.
2. "MUDs" shall mean municipal utility districts, public utility districts, improvement districts, utility districts, and other similarly situated water districts organized or subject to oversight pursuant to Texas Water Code, Chapters 49-68.

3. "MUD Refundings" shall mean bonds issued by MUDs to redeem and replace existing bonds.
4. "Underwriting Services" shall mean services provided to a MUD by an underwriter including, but not limited to purchasing bonds from a MUD in an arm's length transaction in connection with MUD Refundings.

## **PARTIES**

5. RBCCM is a Minnesota limited liability company with its principal place of business in New York, New York. RBCCM is an indirect subsidiary of the Royal Bank of Canada and is a broker-dealer registered with the Texas State Securities Board and the United States Securities and Exchange Commission.
6. The Attorney General is the chief law enforcement officer of the State of Texas, responsible for enforcing state and federal antitrust laws to promote competition and protect the State's citizens, general welfare, and economy from anticompetitive conduct.

## **ALLEGATIONS**

### **A. Background Information**

7. MUDs are political subdivisions of the State of Texas. Their primary function is to finance, build, and maintain infrastructure projects such as irrigation, sewage, and drainage systems. MUDs are authorized to issue tax-exempt bonds to finance these public projects. MUDs are also authorized to assess, levy, and collect taxes on properties within their districts to pay for obligations incurred in connection with bond issuances.
8. Financial advisors serve as fiduciaries to MUDs and advise MUDs as to the structure and timing of bond issuances. MUDs typically issue municipal bonds to finance infrastructure projects or restructure existing debt as part of a MUD Refunding. Typically, MUDs enter into MUD Refundings to take advantage of lower interest rates and decrease their borrowing costs.

### **B. The Separation Agreement**

9. Between 1992 and April 2003, R. Craig Rathmann was employed by RBCCM (or one of its predecessor entities). In early 2003, R. Craig Rathmann was the co-manager of RBCCM's Texas Public Finance Group based in Houston, Texas. Mr. Rathmann was a financial advisor responsible for representing RBCCM's MUD clients in Harris, Fort Bend, Brazoria, Chambers, and Montgomery Counties ("the Houston Area"). He also supervised other financial advisors with responsibilities over MUD and non-MUD clients. Mr. Rathmann personally served as the primary contact for 98 MUD clients. Other RBCCM bankers served as contacts to the firm's 76 remaining FA MUD clients in the Houston Area and reported to Mr. Rathmann.
10. In early 2003, Mr. Rathmann decided to leave RBCCM. In leaving RBCCM, Mr. Rathmann negotiated with RBCCM over which MUD clients would become clients of his new firm and which would stay with RBCCM. The negotiations resulted in a formal separation agreement ("the Separation Agreement") dated March 28, 2003. The Separation Agreement

addresses Rathmann & Assoc.'s and RBCCM's agreement to allocate RBCCM's then-existing MUD FA clients and other aspects of Mr. Rathmann's separation from RBCCM. Specifically, the Separation Agreement lists which MUD clients would become Rathmann & Assoc.'s clients and which would remain with RBCCM (identified in the Separation Agreement's Exhibits A and C, respectively). The 98 MUDs listed in Exhibit A were RBCCM's clients that would be assigned to Rathmann & Assoc. Mr. Rathmann served as the primary contact at RBCCM for all of these 98 clients. The 76 clients listed in Exhibit C would remain with RBCCM. Collectively, these 174 clients comprised all of RBCCM's MUD FA clients in the Houston Area at the time of the Separation Agreement. All of the FA contracts with RBCCM and Rathmann & Assoc. provided that the MUD has the right to terminate for any reason on 30 days' notice.

11. Section 4 of the Separation Agreement memorializes Rathmann & Assoc. and RBCCM's agreement not to compete against each other for the FA business of the MUDs listed on Exhibit A and Exhibit C. This section provides that for a period of three years after the effective date of the agreement, so long as RBCCM was a party to an FA contract with an Exhibit C MUD, Rathmann & Assoc. would not solicit that MUD to: (a) terminate the RBCCM contract; or (b) not renew the RBCCM contract or to take any action interfering with the RBCCM contract. Likewise, for a period of three years after the effective date of the agreement, so long as Rathmann & Assoc. was a party to an FA contract with an Exhibit A MUD, RBCCM agreed it would not solicit that MUD to: (a) terminate the Rathmann & Assoc. contract; or (b) not renew the Rathmann & Assoc. contract or to take any action interfering with the Rathmann & Assoc. contract. RBCCM and Mr. Rathmann further agreed "that its or his intent is to not solicit or have any party that it or he controls to solicit any [Exhibit A or Exhibit C MUD] for so long as [RBCCM or Rathmann & Assoc.] shall have a financial advisory agreement in effect with that [Exhibit A or Exhibit C MUD]...."

12. Section 3 of the Separation Agreement sets forth provisions relating to Underwriting Services for MUD Refundings offered by RBCCM to Rathmann & Assoc.'s clients. Mr. Rathmann agreed that "he shall cause [Rathmann & Assoc.] to use its reasonable efforts, subject to any fiduciary and other duties [Rathmann & Assoc.] may owe to any of [its] clients, to cause [RBCCM] to be named as the senior managing underwriter for each negotiated transaction for the sale of bonds proposed to be made by any of [Rathmann & Assoc.'s clients]." The Separation Agreement further stated, "subject to its fiduciary or other duties to its Clients, [Rathmann & Assoc.] shall use its reasonable efforts to secure an underwriter's discount ... of 1.25% of the gross proceeds from the sale of the bonds in the Negotiated Issue." The Separation Agreement further provided that these provisions would "remain in effect for a period of at least one year" and then be terminable by either party.

13. The Separation Agreement was terminated on July 26, 2012. RBCCM was appointed lead underwriter in 112 out of 115 negotiated transactions involving Rathmann & Assoc.'s clients during the term of the Separation Agreement. RBCCM was paid an underwriter's discount of at least 1.25% in 106 of these 112 negotiated transactions.

## SETTLEMENT PAYMENTS

14. Within thirty days of the Effective Date, RBCCM shall pay the Attorney General the sum of \$990,000 for MUD compensation, subject to the limitations in this paragraph 14. The Attorney General shall distribute the funds to the MUDs in the amounts listed in the attached Exhibit 1 only after the dissolution or expiration of the Temporary Restraining Order in Rathmann et al. v. State of Texas et al, Cause Number D-1-GN-14-003831 ("Rathmann lawsuit"), and only after final court resolution of the plaintiffs' application for a temporary injunction in the Rathmann lawsuit. No funds shall be distributed to the MUDs in contravention of court order.

15. No portion of these payments shall be considered a fine or a penalty.

16. In the event any funds cannot be distributed to MUDs pursuant to paragraph 14, above, the remaining amount shall be deemed a payment to the Attorney General as partial reimbursement of attorneys' fees and costs associated with his investigation related to this matter.

## PROHIBITED CONDUCT

17. For a period of three years from the Effective Date, RBCCM, its directors, officers, managers, agents, and employees agree not to enter into any agreement with actual or potential competitors that violates the antitrust laws of the State of Texas or the United States.

## COOPERATION WITH THE ATTORNEY GENERAL'S INVESTIGATION

18. Until the date upon which the Attorney General's Investigation is concluded, RBCCM agrees to continue to provide reasonable cooperation with the ongoing Attorney General's Investigation, and related proceedings and actions, against Rathmann and/or Rathmann & Assoc. RBCCM agrees to use its best efforts to secure the full and truthful cooperation of its current officers, directors, employees and agents with the ongoing Attorney General's Investigation and related proceedings and actions.

19. Cooperation shall include, but not be limited to: (a) producing, voluntarily, without service of subpoena, to the extent permitted by law or regulation, all information, documents or other tangible evidence reasonably requested by the Attorney General that relates to the Attorney General's Investigation related to R. Craig Rathmann and Rathmann & Assoc., subject to the right to withhold information on grounds of privilege, work product or other legal doctrine; and (b) if requested by the Attorney General, working to ensure that RBCCM's current officers, directors, employees and agents attend, on reasonable notice, any proceedings (including but not limited, to meetings, interviews, hearings, depositions, and trial) and, subject to the right to withhold information on grounds of privilege, work product or other legal doctrine, to answer completely, candidly and truthfully any and all inquiries relating to the subject matter of the Attorney General's Investigation that may be put to such persons by the Attorney General (or any of his deputies, assistants or agents), without the necessity of a subpoena.

## RELEASE BY THE ATTORNEY GENERAL

20. By his execution of this Settlement Agreement, the Attorney General releases RBCCM and its past and current parents, subsidiaries, affiliates, officers, directors, attorneys and employees (other than R. Craig Rathmann) (collectively the "Released Parties"), from all civil claims, counterclaims, cross claims, setoffs, civil causes of action of any type (whether common law, equitable, statutory, regulatory or administrative, class, individual or otherwise in nature, and whether reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured), demands, disputes, damages, restitution, whenever incurred and liabilities of any nature whatsoever, including, without limitation, costs, fines, debts, expenses, penalties and attorneys' fees, known or unknown, arising out of the State's Allegations that could have been asserted by the Attorney General in his sovereign capacity as chief law enforcement officer of the State of Texas (the "Released Claims").

21. The Attorney General intends by this Settlement Agreement to settle with and release only the Released Parties, and does not intend this Settlement Agreement, or any part hereof or any other aspect of the settlement or the release, to extend to, to release or otherwise to affect in any way any rights that the Attorney General has or may have against any other person, party, or entity whatsoever.

22. Nothing herein shall be construed to prevent the Attorney General or RBCCM from pursuing an action to enforce or interpret this Settlement Agreement.

23. Nothing herein shall preclude RBCCM in the future from accepting a senior managing underwriter role on any MUD Refunding for any Rathmann & Assoc. client.

## NOTICES AND CORRESPONDENCE

24. All notices and correspondence required to be provided to the Attorney General shall be sent electronically or by first-class mail, postage pre-paid as follows:

Bret Fulkerson  
Assistant Attorney General, Antitrust Section  
Office of the Texas Attorney General  
300 W. 15<sup>th</sup> Street, Seventh Floor  
Austin, TX 78701  
[bret.fulkerson@texasattorneygeneral.gov](mailto:bret.fulkerson@texasattorneygeneral.gov)

All notices and correspondence required to be provided to RBCCM shall be sent electronically or by first-class mail, postage pre-paid as follows:

Barry McNeil  
Haynes and Boone, LLP  
2323 Victory Avenue, Suite 700  
Dallas, Texas 75219  
[barry.mcneil@haynesboone.com](mailto:barry.mcneil@haynesboone.com)

## OTHER PROVISIONS

25. This Settlement Agreement is entered into voluntarily and solely for the purpose of resolving the potential claims and causes of action against RBCCM. This Settlement Agreement shall not be used for any other purpose in any legal proceeding or action, except in proceedings or actions to enforce or interpret this Settlement Agreement.

26. By this Settlement Agreement, RBCCM does not admit any liability or wrongdoing of any kind. This Settlement Agreement shall not constitute or be construed as an admission or evidence of any violation of any statute or law or of any liability or wrongdoing by RBCCM or bar RBCCM from asserting any defense in any litigation or administrative or other proceeding.

27. This Settlement Agreement shall not confer any rights upon, and is not enforceable by, any persons or entities other than the Attorney General and the Released Parties.

28. This Settlement Agreement contains the entire agreement between the parties and supersedes and cancels any prior agreement or understanding on the subjects covered herein, and no agreements, representations or statements of either party not contained in this Settlement Agreement shall bind that party. This Settlement Agreement may be modified by the mutual agreement of RBCCM and the Attorney General. Any such modification shall be in writing and signed by all parties to this Settlement Agreement.

29. The parties agree that the state or federal courts located in Travis County, Texas, shall be the exclusive forum for resolving any disputes arising from the terms of this Settlement Agreement. RBCCM specifically agrees that courts located in Travis County, Texas, may exercise personal jurisdiction over it to resolve such disputes. Texas law shall apply in any action brought by the Attorney General or RBCCM to enforce or interpret this Settlement Agreement.

30. This Settlement Agreement may be executed in counterparts.

WHEREFORE, IT IS SO AGREED AND the following signatures are affixed hereto on this the 2nd day of October, 2014.

RBC Capital Markets, LLC

By: Ralph DeSena  
Ralph DeSena  
Managing Director & Senior Counsel

Attorney General for the State of Texas

By: Bret Fulkerson  
Bret Fulkerson  
Assistant Attorney General  
Consumer Protection Division

## Exhibit 1

MUD	AMOUNT (\$)
Bilma PUD	10294.50
Bissonnet MUD	7659.48
Brazoria County MUD 02	16134.15
Brazoria County MUD 03	20899.45
Brazoria County MUD 04	5240.18
Brazoria County MUD 17	25145.19
Brazoria County MUD 18	26667.07
Brazoria County MUD 19	19139.01
Brazoria County MUD 26	10460.43
Burney Road MUD	6698.37
Castlewood MUD	4008.95
Chambers County MUD 1	2711.84
Chimney Hill MUD	17096.65
Cinco MUD 03	4082.58
Cinco MUD 05	5806.57
Cinco MUD 08	18739.80
Cinco MUD 10	3944.81
Clay Road MUD	18323.09
Cypress Hill MUD 1	37001.99
Fort Bend County LID 012	37040.73
Fort Bend County MUD 002	4619.58
Fort Bend County MUD 023	27739.25
Fort Bend County MUD 025	29171.31
Fort Bend County MUD 030	30109.77
Fort Bend County MUD 042	24542.88
Fort Bend County MUD 050	10215.44
Fort Bend County MUD 106	21560.39
Fort Bend County MUD 108	4783.42
Fort Bend County MUD 109	6378.48
Fort Bend County MUD 117	29134.81
Fort Bend County MUD 118	24329.88
Grant Road PUD	6610.78
Harris County MUD 005	15339.37
Harris County MUD 053	7812.14
Harris County MUD 127	10062.19
Harris County MUD 166	8110.82
Harris County MUD 168	5577.40
Harris County MUD 173	9053.59
Harris County MUD 196	18804.36
Harris County MUD 230	17158.48
Harris County MUD 278	3627.54
Harris County MUD 284	11907.37
Harris County MUD 285	14423.86
Harris County MUD 304	12750.31
Harris County MUD 368	39074.24
Harris County MUD 371	14080.43

Exhibit 1

Harris County UD 16	3774.73
Harris County WCID 119	20822.01
Kings Manor MUD	22030.58
Mills Road MUD	7797.73
Morton Road MUD	4692.59
North Mission Glen MUD	29333.21
Northwest Harris County MUD 16	12617.56
Northwest Harris County MUD 19	5315.75
Palmer Plantation MUD 1	10699.81
Palmer Plantation MUD 2	13580.65
Remington MUD 1	64383.85
Renn Road MUD	6283.48
Rolling Creek UD	11953.28
Spring Meadows MUD	3889.48
Spring West MUD	5966.91
West Harris County MUD 07	11343.79
Willow Fork DD	51441.68
<b>Total</b>	<b>990000.00</b>