

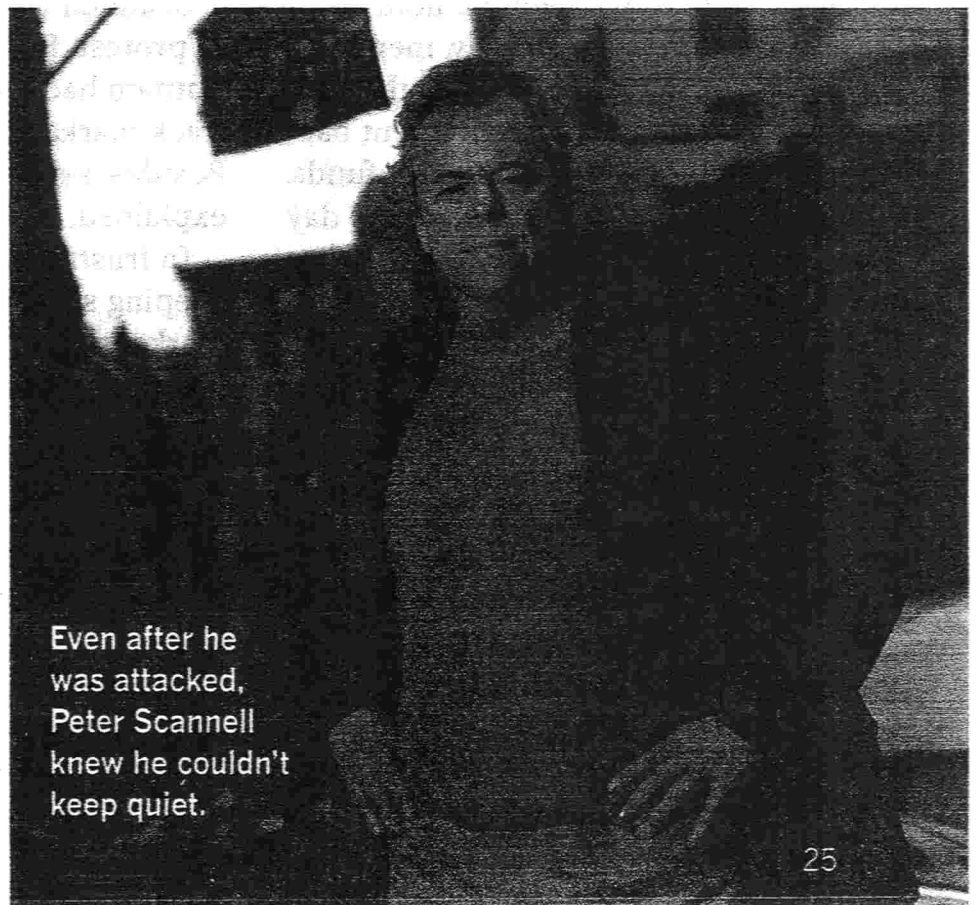
The Whistle-Blower

BY LYNN ROSELLINI

SLEET PELTED the windshield of Peter Scannell's black Volvo as he sipped coffee behind the wheel one cold night in early February 2003. He had parked on a Quincy, Massachusetts, street as he awaited the start of his weekly AA meeting in a local church. Suddenly, a burly, bearded man appeared at the car door. He grabbed Scannell and bashed him repeatedly in the head with a brick. When police officers arrived, they found Scannell hanging out of the car by his seat belt, a bleeding gash on the back of his head.

His attacker, Scannell said, wore a gray Boilermakers Local 5 sweatshirt. He believed the man was trying to scare him from exposing what turned out to be one of the biggest scams in mutual-fund history.

Peter Scannell, 48, an affable man with graying hair and Irish good looks, had never intended to become a whistle-blower. In fact, he had spent much of his adult life freewheeling about the nation's watering holes, working as a waiter, maître d' and wine steward at elite restaurants from Palm Beach to Lake Tahoe. But by early 2000, he and his wife, Teresa, had a new baby



Even after he was attacked, Peter Scannell knew he couldn't keep quiet.

and their first house. A recovering alcoholic, Scannell wanted to trade his night job at a Boston restaurant for one with daytime hours and a healthier lifestyle. So he answered an ad for an entry-level position at Putnam Investments, one of the nation's largest mutual-fund firms.

As he waited in a checkout line, two burly men paused. "You better shut up," one hissed at him.

A few weeks after Scannell started the job of fielding calls from shareholders, he first felt the uneasy sense that something was amiss. He noticed that between the hours of 3 and 4 p.m., almost daily, members of an electricians union would transfer their entire retirement balances into and out of Putnam funds. Hoping that a down market one day would improve in a day or two, the electricians tried to buy shares at low closing prices with the expectation that reselling when the market rose would bring a juicy profit.

The practice, termed market timing, isn't illegal, but it is frowned upon in the industry. Putnam's own prospectus suggested the practice would not be tolerated. As months went by and Scannell rose to the rank of preferred services specialist, he observed that members of a boilermakers union were practicing a

different kind of market timing—taking advantage of international time differences to make a killing. As Scannell processed these trades, the market timers were getting richer while small investors saw their portfolios shrink.

Scannell grew up in an Irish-Catholic family in Quincy. His parents and the no-nonsense teachers at Xaverian Brothers High School had instilled in him a firm sense of right and wrong. What was going on at Putnam, he

thought, wasn't even a close call. It's like betting on a racehorse, knowing before it hits the finish line that you'll be the winner.

Scannell went to his supervisors to protest. But they brushed him off. Putnam had no system in place to track market timing, he was told. Besides, as a senior vice president explained, "It isn't criminal."

In frustration, Scannell began keeping spreadsheets documenting market timing. According to his figures, in one period from July 2000 to January 31, 2003, ten members of a boilermakers union retirement fund traded \$657 million worth of shares in 5,340 transactions. They made nearly \$2 million in profits.

By now, Scannell felt he was being watched. His computer could be accessed by supervisors on the bridge overlooking the call floor where he worked. One day, when he returned

to his desk from a meeting, someone had called up a whistle-blower website on his computer. He stared at the screen. There's no turning back now, he thought.

PUTNAM wanted to ignore market timing, Scannell believed, in order to keep its preferred customers—particularly the lucrative union contracts—happy. Putnam denies that the company condoned the practice. At the end of January 2003, Scannell told his supervisor he'd no longer process market-timing trades. That Friday after work, his hands shaking with nerves, he carried spreadsheets documenting market timing past security guards and out to his car. He planned to take them to regulators at the Securities and Exchange Commission on Monday. As he drove home, he must have checked his rearview mirror 50 times.

Two days later, Scannell was attacked. For weeks afterward, he suffered headaches and dizziness. The man who'd once been an outgoing maître d' became nervous and withdrawn. The trauma landed Scannell in twice-a-week therapy, where he was diagnosed with post-traumatic stress syndrome.

One night he awoke, heart racing, from a nightmare in which once again a brick bashed into his skull. Playing with his son, Paul, or chatting with his wife, he would suddenly think about Putnam and feel ready to explode with rage. To make

matters worse, when he went to the grocery store, his therapist's office or AA meetings, he was often followed. Strangers would drive by his house and honk or make obscene gestures. Once, while he waited in a checkout line, two men paused, and one hissed, "You better shut up!"

Still, that April, he finally brought his documents to the SEC and later to regulators from the Commonwealth of Massachusetts. Scannell's actions helped set off a series of investigations that rocked the industry, eventually involving dozens of firms charged with a variety of sales-practice and trading abuses. Ultimately, Putnam agreed to pay \$110 million in restitution and penalties. Putnam's CEO resigned, and investors withdrew billions.

"I give all the credit in the world to Peter," says Matthew Nestor, the Massachusetts director of securities. "It's not easy to be the one person in the world who stands up and says, 'This is wrong.'"

As for Scannell, who has been on disability leave since walking out of Putnam, the experience cost him \$100,000 in savings due to lost wages. He figures he's been blackballed in the industry. To make ends meet, the Scannells have dipped into their son's college fund.

Still, Peter Scannell says he has no regrets. The payoff? Not money or fame—just the knowledge that he stood up for the little guy. "I feel very good inside," he says. "You can't put a price on that." ■