

5. During my employment at Telluride, I was responsible for managing investment portfolios and trading. I was never asked by Telluride to develop new trading strategies, nor was I paid to do so by Telluride.

6. Over the past four years, since 2000, and well before beginning my employment at Telluride, I have been working on developing a trading strategy based upon the well-known theories of pairs trading and mean reversion. These theories are very well-known in the financial field and hedge fund industry, and were the subject of a research paper published by the Yale School of management in 1999. I have attached a copy of this article to my Affidavit as Exhibit 1.

7. All the time I spent working at Telluride involved only managing portfolios and trading. I did not develop any "new" trading strategy during my employment at Telluride. Any strategy or strategies I used while employed at Telluride were developed by me prior to becoming an employee of the company.

8. I mentioned to Peter Hajas, CEO of Telluride, that I had been thinking about a new trading idea, but I was unclear as to the details. Apparently, my statement to him created a great deal of confusion. The "Sharpe 4 Ratio" strategy that Telluride refers to in this lawsuit is my own idea that I have been working on since 2000. The term "strategy" does not accurately describe this idea. My idea is simply a preliminary data analysis based upon my review of publicly available stock performance records. There is no "Sharpe 4 Ratio" strategy; rather, it is an idea that I have not yet fully developed into a working strategy.

9. I never used a "Sharpe 4 Ratio" strategy while I worked at Telluride, and I have not used it before or since working for Telluride because it is completely untested and remains only a theory. In practical application, it is most likely that, despite a potential profit that could result from implementation, such profits would be diminished dramatically, or even turn

negative, due to transaction costs, how good are prices executed, changing market conditions, and other factors. Thus, my remark to Peter Hajas perhaps created some confusion on his part.

10. My employment contract with Telluride prohibited me from using trading strategies not approved by Telluride's management. During my employment, I used only the approved "pairs trading" strategy.

11. The documents that Telluride refers to that I e-mailed to myself for working at home are spreadsheets that I created by simply downloading information and data that is easily available on the websites such as "www.Bloomberg.com" and "www.finance.yahoo.com." There is no confidential data in the computer files to which Telluride refers. These files consist of publicly available information that could be recreated by downloading the data from the Bloomberg website and other websites. Telluride pays for a subscription to Bloomberg, but during my employment I paid a *pro rated* amount to the company to have access to this subscription.

12. In the hedge fund industry, including Telluride, the company does not usually provide employees with "trading strategies," and Telluride never provided me with a trading strategy. Despite Mr. Peter Hajas' Affidavit (¶ 7), it is not the "normal practice" at Telluride for employees to disclose trading strategies. Each employee of Telluride has their own trading strategies that the employees do not share with other employees or the company. Each employee uses strategies they have developed before coming to work for Telluride. Such strategies are closely-guarded by each employee, and it is highly discouraged to even watch other employees performing trades. Telluride never provided me with trading strategies during my employment.

13. During my employment, Telluride never gave me access to a client list or any other confidential information. Like all other employees, I was simply permitted access to

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capital for use in trading, and I have never known the identity of the investors for whom they are making trades.

14. Telluride gives every employee the use of a networked computer terminal, but employees are not able to access the company's confidential files.

15. I currently reside in the state of New Jersey. I moved to New Jersey on November 23, 2004 to pursue employment and I intend to remain there indefinitely.

16. I now reside at 35 River Drive South, #2115, Jersey City, NJ 07310.

17. On or about December 4, 2004, I received a telephone call from my wife who resides in Irvine, California. During that telephone call, my wife informed me that she had received papers related to this lawsuit. Due to the urgency of this matter, my wife faxed these documents to me at my workplace in New York City, New York.

18. Since this lawsuit was filed, I have not received any documents personally from Plaintiff Telluride, Plaintiff's counsel, or any other agent hired or designated by Plaintiff.

FURTHER YOUR AFFIANT SAYETH NOT.

Stanley Xu Zheng
Stanley Xu Zheng

Subscribed and sworn to before me
this 13th day of December, 2004

Edgar Gelabert
Notary Public

Edgar Gelabert
Notary Public, State Of New York
No. 01GE6082297
Qualified In New York County
Commission Expires Oct. 21, 2006