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newsflash

SEC CHARGES R. ALLEN STANFORD, STANFORD INTERNATIONAL BANK FOR MULTI-BILLION DOLLAR INVESTMENT SCHEME

Even though the Stanford Group and R. Allen Stanford are located in Houston, the SEC initiated the litigation in Dallas, alleging that venue was proper because "certain of the transactions, acts, practices and courses of business occurred in the Northern District of Texas." It could be that the SEC chose the Dallas court as a matter of convenience. The SEC offices are in Fort Worth, not Houston. It could also be that Dallas presents a better jury pool for the trial, given Mr. Stanford's prominence in Houston society. Below is the text of the SEC announcement.

Washington, D.C., February 17, 2009 – The Securities and Exchange Commission today charged Robert Allen Stanford and three of his companies for orchestrating a fraudulent, multi-billion dollar investment scheme centering on an \$8 billion CD program.

Stanford's companies include Antigua-based Stanford International Bank (SIB), Houston-based broker-dealer and investment adviser Stanford Group Company (SGC), and investment adviser Stanford Capital Management. The SEC also charged SIB chief financial officer James Davis as well as Laura Pendergest-Holt, chief investment officer of Stanford Financial Group (SFG), in the enforcement action.

Pursuant to the SEC's request for emergency relief for the benefit of defrauded investors, U.S. District

Judge Reed O'Connor entered a temporary restraining order, froze the defendants' assets, and appointed a receiver to marshal those assets.

"As we allege in our complaint, Stanford and the close circle of family and friends with whom he runs his businesses perpetrated a massive fraud based on false promises and fabricated historical return data to prey on investors," said Linda Chatman Thomsen, Director of the SEC's Division of Enforcement. *"We are moving quickly and decisively in this enforcement action to stop this fraudulent conduct and preserve assets for investors."*

Rose Romero, Regional Director of the SEC's Fort Worth Regional Office, added, *"We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world."*

The SEC's complaint, filed in federal court in Dallas, alleges that acting through a network of SGC financial advisers, SIB has sold approximately \$8 billion of so-called "certificates of deposit" to investors by promising improbable and unsubstantiated high interest rates. These rates were supposedly earned through SIB's unique investment strategy, which purportedly allowed the bank to achieve double-digit returns on its investments for the past 15 years.



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Kilgore + Kilgore provides leverage to institutional and high-net worth investors in recovering their investments. During the savings and loan collapse of the 1980s, Kilgore set ground-breaking precedent in helping investors recover their assets lost due to fraud and gross negligence. This practice continues today. In the new millennium, Kilgore helped a business recover assets lost when a lender pulled out of the deal. Kilgore currently represents an investment fund in securities fraud litigation initiated to recover an investment lost due to fraud. Kilgore clients include a member of Forbes 100 Richest, public institutions like Bank of New York Mellon, private institutions like Professional Bank, investment bankers from the defunct Lehman Brothers and numerous other executives and investors.

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According to the SEC's complaint, the defendants have misrepresented to CD purchasers that their deposits are safe, falsely claiming that the bank re-invests client funds primarily in "liquid" financial instruments (the portfolio); monitors the portfolio through a team of 20-plus analysts; and is subject to yearly audits by Antiguan regulators. Recently, as the market absorbed the news of Bernard Madoff's massive Ponzi scheme, SIB attempted to calm its own investors by falsely claiming the bank has no "direct or indirect" exposure to the Madoff scheme.

According to the SEC's complaint, SIB is operated by a close circle of Stanford's family and friends. SIB's investment committee, responsible for the management of the bank's multi-billion dollar portfolio of assets, is comprised of Stanford; Stanford's father who resides in Mexia, Texas; another Mexia resident with business experience in cattle ranching and car sales; Pendergest-Holt, who prior to joining SFG had no financial services or securities industry experience; and Davis, who was Stanford's college roommate.

The SEC's complaint also alleges an additional scheme relating to \$1.2 billion in sales by SGC advisers of a proprietary mutual fund wrap program, called Stanford Allocation Strategy (SAS), by using materially false historical performance data. According to the complaint, the false data helped SGC grow the SAS program from less than \$10 million in 2004 to more than \$1 billion, generating fees for SGC (and ultimately Stanford) of approximately \$25 million in 2007 and 2008. The fraudulent SAS performance was used to recruit registered investment advisers with significant books of business, who were then heavily incentivized to reallocate their clients' assets to SIB's CD program.

The SEC's and FINRA's investigations are continuing. Stay tuned. We will keep you informed.

The SEC's complaint charges violations of the anti-fraud provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act, and registration provisions of the Investment Company Act. In addition to emergency and interim relief that has been obtained, the SEC seeks a final judgment permanently enjoining the defendants from future violations of the relevant provisions of the federal securities laws and ordering them to pay financial penalties and disgorgement of ill-gotten gains with prejudgment interest.

The Commission acknowledges the assistance and cooperation of the Financial Industry Regulatory Authority (FINRA) in connection with this matter. FINRA independently developed information through its examination and investigative processes that contributed significantly to the filing of this enforcement action.

The SEC's investigation is continuing.

Source: SEC