# EXHIBIT B

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# SEC accuses Stanford Group owner of massive ongoing fraud

Amid scrutiny for their failure to act on red flags in the Bernard Madoff case, federal regulators have accused R. Allen Stanford of huge investment fraud.

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R. Allen Stanford, a flamboyant Texas financier who has major operations in downtown Miami, was accused of an $8 billion "massive ongoing fraud" selling high-yield certificates of deposit in his Antiguan bank and lying about how the proceeds were invested.
The Securities & Exchange Commission alleged that Stanford ran the massive scheme with James M. Davis, of Baldwin, Miss., who is the bank's chief financial officer, and Laura Pendergest-Holt, also of Mississippi, who is chief investment officer for the bank and its Stanford Financial Group affiliate.

The SEC told a federal judge in Dallas that Stanford and Davis have refused to cooperate with the agency's efforts to determine whether the $8 billion in investor funds still exists.

The judge appointed a receiver over the bank and its affiliated Houston-based Stanford Group Co., which is a broker dealer and investment advisor, and Stanford Capital Management, also an investment advisor, and froze all their assets.

U.S. marshals swarmed the Houston headquarters of Stanford on Tuesday to secure records and computers.

At the heart of the investigation are CDs issued by Stanford International Bank, which claims to have 30,000 clients in 131 countries. The CDs paid "improbable and unsubstantiated high interest rates," ranging from 11.4 percent to 16.5 percent between 1993 and 2005, and were sold by a web of brokers who collected hefty commissions for touting them, federal regulators alleged. Stanford claimed to invest the CD proceeds to buy safe, liquid assets, but instead invested in real estate and private equity, according to the SEC.

"The Miami operation was an important focal point for international investors, especially from Latin America" said Bowman Brown, a Miami attorney, who has several clients who bought CDs from the loosely regulated Antiguan bank. "The consequences, particularly in Venezuela and also in Colombia and other Caribbean jurisdictions, will be significant."

Stanford's Miami office, which occupies three floors at the Miami Center at 201 S. Biscayne Blvd., has 138 employees, down from about 500 in 2006. Operations include a private client group, corporate affairs and investment banking, Brian Bertsch, a Stanford spokesman, said last week. The company transferred its Latin American operations, which were formerly part of the Miami office, to Mexico City about two months ago, he said. On Tuesday, Bertsch referred requests for comment to the SEC.

Stanford, a U.S. citizen who became a citizen of Antigua & Barbuda 10 years ago, has other Miami ties. He bought the sprawling bayfront Tyecliffe Castle, formally the Wackenhut estate, in Gables Estates in 2003 for $10.5 million.

The Stanford companies also have operations in Boca Raton, Vero Beach and Longboat Key, among other locations around the country in addition to offices in Venezuela, Mexico, Ecuador, Peru, Panama, Colombia and Europe.

The company has donated to various local causes, from the Kiwanis of Little Havana to the Festival of the Arts in Boca Raton and is listed as a host sponsor for the 2009 Sony Ericsson Open tennis competition in Key Biscayne.

Stanford also has been a big political contributor. Among recipients was Sen. Bill Nelson, a Florida Democrat, who received $45,900. On Tuesday, Nelson's office said the senator will give any Stanford contributions to charity.

The SEC suit comes as the agency is under sharp criticism by Congress and the investment community for its repeated failure to spot red flags in the massive investment fraud run by Bernard Madoff. Yet even as the SEC filed claims against Stanford, some observers are raising questions again about why regulators took so long to move against the firm.

"The government turned a blind eye to this for years," said Charles J. Hazlett, a broker who worked at Stanford for a year but left in 2003 in a dispute with management that began, he said, when he pressed for details about how the CDs were invested.

In court papers, the SEC expressed urgency in taking the reins at Stanford. As the SEC probe became public recently, the firm allegedly began telling clients they couldn't redeem their CDs because "the SEC had frozen the account for two months."

Local lawyers, including Fort Lauderdale securities attorney Jeffrey R. Sonn, said they are already being retained by clients who invested in Stanford CDs.

Sonn said a former Stanford broker told him brokers learned about the CDs at a training session in Houston. When they asked how the CDs could pay such a high return, they were told that the company invested the money in stocks and other securities that earn higher returns than CDs. "It does sound plausible," said Sonn. "The problem is you can't have consistent returns every year when the market fluctuates." But this fund did.

The brokers also were told that the bank had low overhead, had half a dozen hedge-fund managers overseeing the investments, and kept a 10 percent cash reserve in case investors wanted to redeem the CDs.

In a twist, SEC investigators said Stanford International Bank also faces losses from the massive scheme at Bernard L. Madoff Securities, "despite public assurances to the contrary." Madoff has confessed to running a $50 billion Ponzi scheme.

After authorities arrested Madoff in December on charges of securities fraud, many Stanford investors called their brokers and asked to pull out of the Stanford CDs, Sonn said. He said one client had a six-figure sum invested in the CDs and asked to take his money out weeks ago. So far, the cash has not turned up.

Miami Herald business writer Scott Andron, Leslie Clarke, Ina Paiva Cordle and Bloomberg News contributed to this report.