

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

SECURITIES AND EXCHANGE COMMISSION	§	
	§	
Plaintiff,	§	
	§	
v.	§	Case No. 3:09-CV-0298-N
	§	
STANFORD INTERNATIONAL BANK, LTD.,	§	
STANFORD GROUP COMPANY,	§	
STANFORD CAPITAL MANAGEMENT, LLC,	§	
R. ALLEN STANFORD, JAMES M. DAVIS, and	§	
LAURA PENDERGEST-HOLT,	§	
	§	
Defendants.	§	

**RECEIVER’S REPLY TO ROBERT ALLEN STANFORD’S OPPOSITION TO
RECEIVER’S MOTION TO APPROVE SALE OF INVESTMENT INTERESTS IN HSS**

Ralph S. Janvey, Receiver, has requested the Court’s approval of a proposed sale of Stanford International Bank Ltd.’s majority ownership interest in Health Systems Solutions, Inc. Since 1998, SIBL has invested a total of \$40 million in HSS (and its predecessor in interest). Based on the trailing 10-trading-day share price on the Over-the-Counter Bulletin Boards for May 29, 2009, SIBL’s remaining equity value had declined more than 94%, to \$2.2 million. Even that price is no longer realizable given current market conditions and the condition of HSS. The Receiver has concluded that the sale of SIBL’s interest to HSS management for \$700,000 will achieve the maximum benefit for, and is in the best interest of, the Estate. Robert Allen Stanford opposes the sale of SIBL’s interest in HSS.

Stanford argues that the Receiver’s proposal violates the duties imposed by the Amended Order Appointing Receiver, is not in the best interests of the Estate, and that the Estate can and should fund future capital commitments to HSS so that SIBL’s interest can be held until

“potential stabilization in the market.” Stanford also complains that this motion reflects a pattern of “fire sales” (of other private equity interests and aircraft) that are diminishing the value of the Estate. There is no merit to Stanford’s objections.

First, the Receiver’s actions to liquidate assets have been cautious, well-informed, deliberate, and fully comply with all of the duties imposed by the Amended Order Appointing Receiver. The Receiver has been vested with “the sole and exclusive power and authority to manage and direct the business and financial affairs of the Defendants” and has been charged with preserving the value of the Estate while minimizing expenses.¹ Amended Order, Doc. 157, ¶¶ 5(g), 5(j), 6. The carrying costs of the vast majority of Estate assets threaten to consume the remaining value of the Estate. Taxes, mortgages, loan payments, capital contributions, maintenance, security and storage must be paid on assets the Estate continues to hold, and every penny of these expenses depletes Estate assets. No reasonable person can conclude that holding these assets in reliance on the “potential stabilization in the market” – which may or may not ever occur in the relevant market for any particular asset – will result in “*maximum and timely* disbursement” to claimants.” Doc. 157, ¶ 5(j) (emphasis added).

Second, Stanford’s assertion that his victims should continue to pay the costs of his ill-advised “investments” and frolics until the conclusion of a trial on the merits is the height of arrogance and ignores the abundant evidence already adduced. By February 16th, this Court had found it “both necessary and appropriate [to appoint the Receiver] in order to prevent waste and dissipation of the assets of the Defendants to the detriment of the investors.” Order Appointing Receiver, Doc. 10, at 1. Defendant James M. Davis has admitted that SIBL was a

¹ In regard to the liquidation of Stanford’s aircraft, the Receiver is authorized to surrender assets to secured creditors if those assets serve as collateral. Doc. 157 ¶ 5(f). The liquidation of the aircraft returned such collateral to a secured creditor and brought \$4.8 million into the Receivership Estate. Joint Submission Concerning Return of Collateral, Doc. 472 (06/15/2009).

“massive Ponzi scheme ab initio” and has pleaded guilty to mail fraud, conspiracy to commit fraud, and conspiracy to obstruct an SEC investigation. Appendix to Notice of Filing, Doc. 807, at 16:17, 21:15-17. Davis has described the long history of Stanford’s Ponzi scheme and has now admitted the following key facts:

- Beginning in at least 1999, Stanford and others falsified SIBL’s earnings, revenue, and assets contained in Annual Reports. Plea Agr., ¶ 17(c).²
- SIBL investors received account statements by mail, which contained false investment and revenue values. *Id.* ¶ 17(d).
- Only 10% of SIBL’s investment portfolio consisted of liquid assets. *Id.* ¶ 17(g).
- By 2008, approximately 80% of SIBL’s investment portfolio consisted of illiquid investments, including grossly overvalued real and personal property that SIBL had acquire from Stanford-controlled entities at falsely inflated prices. *Id.* At least \$2 billion of undisclosed, unsecured personal loans from SIBL to Stanford were disguised in SIBL’s financial statements as “investments.” *Id.*
- Davis regularly created “false books and records in which the value of the [SIBL] investment portfolio was further fraudulently adjusted by percentage increases to produce false investments and revenue values. As a result, SIBL’s values for revenue and investments were falsified on a routine basis.” *Id.* at ¶ 17 (h).
- From at least 2002 through 2008, Davis prepared fictitious SIBL investment reports which were provided to the Antigua Financial Services Regulatory Commission (“FSRC”) on a quarterly basis. *Id.* at ¶ 17(i).
- Employees in SFG’s accounting group were given a “secret instruction sheet” directing them to make changes that were necessary to generate false adjusted revenue figures. *Id.* at ¶ 17(l). These employees prepared the false financial statements published in SIBL’s annual reports. *Id.* at ¶ 17(m).
- Years of routine false reporting “created an ever-widening hole between reported assets and actual liabilities, causing the creation of a

² Davis’s plea agreement can be found in the record at Appendix to Notice of Filing, Doc. 771, at 31-53 (09/10/2009).

massive Ponzi scheme” whereby CD redemptions could only be accomplished with new infusions of investor funds. *Id.* at ¶ 17(n). By the end of 2008, SIBL’s monthly report stated that it held over \$7 billion in assets, when it actually held less than \$2 billion in assets. *Id.*

- Stanford and Davis bribed Leroy King, CEO of the FSRC, with investor money that was kept in a secret Swiss bank account. *Id.* at ¶ 17(q).
- In June 2005, King provided Stanford with an inquiry from the SEC to the FSRC requesting information on SIBL’s investment portfolio. In this confidential letter, the SEC “stated that it had evidence to suggest that SIBL was engaged in a ‘possible Ponzi scheme.’” *Id.* at ¶ 17(t). Stanford assisted King in drafting a false and misleading response to the SEC. *Id.* In 2006, King and Stanford again colluded to draft a false and misleading response to an inquiry from the SEC. *Id.* at ¶ 17(w).
- In 2008, Stanford and others recorded a series of related party property sales through business entities controlled by Stanford, falsely inflating a \$65 million real estate transaction into a \$3.2 billion asset of SIBL. *Id.* at ¶ 17(cc).
- From June 2008 to February 2009, the value of the Tier II assets managed by Holt (comprising only 10% of SIBL’s investment portfolio) had decreased in value from approximately \$850 million to \$350 million. *Id.* at ¶ 17(ii).

Because the sale of HSS to its management is the only viable means of reducing Estate expenses while also realizing any value from this asset, the Receiver’s motion should be granted.

Dated: October 23, 2009

Respectfully submitted,

BAKER BOTTS L.L.P.

By: /s/ Kevin M. Sadler

Kevin M. Sadler
Texas Bar No. 17512450
kevin.sadler@bakerbotts.com
Robert I. Howell
Texas Bar No. 10107300
robert.howell@bakerbotts.com
David T. Arlington
Texas Bar No. 00790238
david.arlington@bakerbotts.com
1500 San Jacinto Center
98 San Jacinto Blvd.
Austin, Texas 78701-4039
(512) 322-2500
(512) 322-2501 (Facsimile)

Timothy S. Durst
Texas Bar No. 00786924
tim.durst@bakerbotts.com
2001 Ross Avenue
Dallas, Texas 75201
(214) 953-6500
(214) 953-6503 (Facsimile)

**ATTORNEYS FOR RECEIVER
RALPH S. JANVEY**

CERTIFICATE OF SERVICE

On October 23, 2009, I electronically submitted the foregoing document with the clerk of the court of the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. I hereby certify that I have served the Court-appointed Examiner, all counsel and/or pro se parties of record electronically or by another manner authorized by Federal Rule of Civil Procedure 5(b)(2).

/s/ Kevin M. Sadler
Kevin M. Sadler