IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

RALPH S. JANVEY, IN HIS CAPACITY AS COURT-APPOINTED RECEIVER FOR THE STANFORD RECEIVERSHIP ESTATE, AND THE OFFICIAL STANFORD INVESTORS COMMITTEE	§ § § § § §	
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PLAINTIFFS,	§	Case No. ____________________
	§	
VS.	§	
	§	
PROSKAUER ROSE, LLP, CHADBOURNE & PARKE, LLP, AND THOMAS V. SJOBLOM,	§ § §	
	§	
DEFENDANTS.	§	

<u>PLAINTIFFS' ORIGINAL COMPLAINT</u>

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Defendants.		

PLAINTIFFS' ORIGINAL COMPLAINT

Ralph S. Janvey, in his capacity as the Court-Appointed Receiver for the Stanford Receivership Estate, and the Official Stanford Investors Committee file this Original Complaint (the "Complaint") against Defendants PROSKAUER ROSE, LLP, CHADBOURNE & PARKE, LLP, and THOMAS V. SJOBLOM (collectively, the "Defendants"), and allege as follows:

I. PREFACE

1. This action is filed to recover damages for the Stanford Receivership Estate from the Defendants based on their participation in the massive Ponzi scheme orchestrated by Allen Stanford and his affiliated group of companies that comprised Stanford Financial Group.

II. PARTIES

2. Plaintiff Ralph S. Janvey was appointed by the United States District Court for the Northern District of Texas, Dallas Division, to serve as the Receiver for the assets, monies, securities, properties, real and personal, tangible and intangible, of whatever kind and description, wherever located, and the legally recognized privileges (with regard to the entities) of Stanford International Bank, Ltd., Stanford Group Company, Stanford Capital Management, LLC, Robert Allen Stanford, James M. Davis, Laura Pendergest-Holt, Stanford Financial Group, the Stanford Financial Group Bldg., Inc., and all entities that the foregoing persons and entities own or control, including but not limited to Stanford Financial Group Global Management, LLC and Stanford Financial Group Company (collectively, the "Stanford Receivership Estate"). Plaintiff Janvey is asserting claims in this Complaint in his capacity as the Receiver for the Stanford Receivership Estate.

3. Plaintiff Official Stanford Investors Committee (the "Committee") was formed by the United States District Court for the Northern District of Texas, Dallas Division, on August 10, 2010. Plaintiff Committee, through this Complaint, is cooperating with the Receiver to identify and prosecute actions and proceedings for the benefit of the Stanford Receivership Estate. Plaintiff Committee is the assignee of certain claims that were assigned by the Receiver.

4. Defendant Proskauer Rose, LLP ("Proskauer") is a limited liability partnership organized under the laws of the State of New York. Proskauer may be served with service of process by serving its agent authorized to receive service of process, Richard H. Rowe, 1001 Pennsylvania Avenue, NW, Suite 400 South, Washington, D.C., 20004.

5. Defendant Chadbourne & Parke, LLP ("Chadbourne") is a limited liability partnership organized under the laws of the State of New York. Chadbourne may be served with

service of process by serving its agent authorized to receive service of process, Prentice-Hall Corporation System Inc., 1090 Vermont Avenue, NW, Washington, D.C., 20005.

6. Defendant Thomas V. Sjoblom ("Sjoblom") is an individual who currently resides in the State of Virginia. Sjoblom may be served with service of process at his home address or as otherwise provided in Federal Rule of Civil Procedure 4(e), Superior Court Rule of Civil Procedure 4(e), or the Virginia Rules of Civil Procedure.

III. JURISDICTION AND VENUE

7. The Court has jurisdiction over this action under 28 U.S.C. §1332(a)(1) because Plaintiffs and Defendants are citizens of different states and the amount in controversy exceeds $75,000, excluding interest and costs.

8. For jurisdictional purposes, Plaintiffs are citizens of Texas.

9. Defendant Proskauer is a citizen of a state other than Texas, and it maintains a law office at 1001 Pennsylvania Ave., NW, Suite 400 South, Washington, D.C. 20004.

10. Defendant Chadbourne is a citizen of a state other than Texas, and it maintains a law office at 1200 New Hampshire Ave., NW, Washington, D.C. 20036.

11. Defendant Sjoblom is a citizen of a state other than Texas; he is domiciled in the State of Virginia and licensed to practice law in Washington, D.C. From 2002 to 2006, Defendant Sjoblom was a partner at Defendant Chadbourne. From 2006 to 2009, Defendant Sjoblom was a partner at Defendant Proskauer.

12. Venue is proper in this district under 28 U.S.C. §1391(b)(2) (West 2012) because a substantial part of the events or omissions giving rise to this claim occurred in this district. From their offices in the District of Columbia, Defendants Proskauer, Chadbourne, and Sjoblom provided

legal services to entities within the Stanford Receivership Estate, which have given rise to the causes of action asserted below.

IV. FACTUAL BACKGROUND

A. The Stanford Financial Group Empire

13. From the mid 1980s through February 2009, R. Allen Stanford ("Stanford") — a former bankrupt gym owner from Mexia, Texas — built a financial service empire that at its height boasted 30,000 customers in 130 countries managing billions of dollars in investment funds. The empire was comprised of over 140 companies from across the globe, all of which were ultimately owned by Stanford himself. The companies operated under the brand name "Stanford Financial" with their worldwide headquarters located in Houston, Texas. The conglomeration of Stanford companies (collectively, "Stanford Financial" or "Stanford Financial Group") included but were not limited to: (i) the Houston, Texas-based registered broker/dealer and investment adviser company Stanford Group Company ("SGC"); (ii) the Houston-based administrative company that serviced all the different companies, Stanford Financial Group Company; (iii) the Antiguan-based offshore bank Stanford International Bank Ltd. ("SIBL"); (iv) Stanford Trust Company (Louisiana) ("STC"); (v) Stanford Trust Company Ltd. (Antigua) ("STCL"); and (vi) the representative offices of Stanford Trust Company Ltd. (Antigua), d/b/a "Stanford Fiduciary Investor Services" ("SFIS"), that operated in Miami, Houston, and San Antonio. Stanford Financial was ultimately controlled and managed principally from Houston, Texas in the United States.

14. Stanford Financial's offshore banking operation began as Guardian International Bank in the mid 1980s. Over the years, Stanford Financial grew into a purported full-service financial services firm, offering worldwide clients private banking and U.S.-based broker/dealer and investment adviser services. Stanford Financial gave its clients all the appearances of a highly

successful operation, with lavish offices in some of the world's premier cities. Stanford himself made the Forbes list of the richest people in the world with a personal fortune estimated at $2.2 billion.

15. The entire Stanford Financial operation was fueled primarily by one product: Certificates of Deposit ("CDs") issued by SIBL, the Antiguan offshore bank wholly owned and controlled by Stanford himself. Clients who were introduced to Stanford Financial, whether in Houston, Miami, Caracas, or Mexico City, quickly learned that the main financial product peddled by the group was the SIBL CD. SIBL CDs were sold worldwide by a web of different Stanford Financial promoter companies, including SGC, STC and SFIS, whose function was to promote the sale of SIBL CDs. For example, to access additional investor capital in Latin America, Stanford Financial established representative offices in Colombia (Stanford Group Columbia a/k/a Stanford Bolsa y Banca), Ecuador (Stanford Group Ecuador a/k/a Stanford Group Casa de Valores, S.A. and Stanford Trust Company Administradora de Fondos y Fideicomisos, S.A.), Mexico (Stanford Group Mexico a/k/a Stanford Group Mexico S.A. de C.V. and Stanford Fondos), Panama (Stanford Group Panama a/k/a Stanford Bank Panama and Stanford Casa de Valores Panama), Peru (Stanford Group Peru a/k/a Stanford Group Peru S.A. Sociedad Agente de Bolsa), and Venezuela (Stanford Group Venezuela a/k/a Stanford Group Venezuela C.A., Stanford Bank Venezuela, and Stanford Group Venezuela Asesores de Inversion). These foreign offices were ultimately controlled and administered by Stanford Financial employees in Houston, Texas. By February 2009, Stanford Financial's records reveal that SIBL had total CD account balances of approximately $7.2 billion.

B. Stanford Financial's Operations in the United States

16. For the first decade of its operations, 1985 to 1995, Stanford Financial and its offshore bank (whether Guardian or SIBL) targeted a Latin American clientele. But by the late

1990s, Stanford Financial Group had established a foothold in the United States. In 1995, Stanford Financial Group established SGC, and in February 1996, SGC was registered as a broker/dealer and investment adviser. SGC established offices initially in Houston and Baton Rouge, Louisiana. SGC began the practice of "head hunting" for U.S. brokers, bankers, and other financial advisers, paying them enormous signing bonuses to leave their jobs at other firms and transfer their books of clients over to SGC. Fueled by this influx of veteran bankers, brokers and financial advisers, SGC grew from 6 branch offices in the United States in 2004 to more than 25 offices across the United States (but principally concentrated in the Southern United States) in 2007.

17. Since the 1980s, Allen Stanford recognized the huge potential for marketing his offshore CDs to Latin Americans via the "gateway" city of Miami. In 1998, Stanford Financial established SFIS in order to sell the SIBL CDs to foreign investors out of Miami. SFIS was organized under Florida state law in order to evade federal banking and securities regulations. The Miami office of SFIS generated over $1 billion in SIBL CD sales for Stanford Financial, primarily from sales to CD investors from South American countries such as Colombia, Ecuador, Peru, and Venezuela. Stanford Financial also set up SFIS offices in Houston and San Antonio, Texas to cater to Mexican investors visiting those cities.

18. To increase sales of its SIBL CDs, Stanford Financial eventually began to sell the CDs to U.S. investors' IRA accounts. STC was therefore established in Baton Rouge, Louisiana in 1998 to serve as the trustee/custodian for IRA accounts owned by investors referred to STC by SGC. After STC was established, SGC's brokers and investment advisers convinced the IRA investors to invest some or, in many cases, all of their IRA accounts into the SIBL CDs.

19. For all of these promoter companies — whether SGC, SFIS, or STC — the primary product marketed and sold was the SIBL CD, as it sustained Stanford Financial's operations and

paid the employees' exorbitant salaries and bonuses. The promoter companies were all members of Stanford Financial, were ultimately owned by Stanford himself, were interconnected via intercompany marketing and referral fee agreements, and were controlled by Stanford Financial in Houston, Texas.

20. Houston, Texas was Stanford Financial's nerve center and principal base of all operations, including SIBL, SGC, SFIS, and STC. STC was wholly owned by Houston-based SGC and controlled by Stanford Financial personnel in Houston, and virtually every member of the STC Board of Directors at any time was an employee of SGC. Stanford Financial directed STC's operations and provided all administrative functions from Houston. STC's annual budget and financial forecasts were prepared by Stanford Financial personnel in Houston, and even reimbursement of expenses for STC employees was handled out of Houston.

21. All the sales and marketing practices for the entire Stanford Financial group of companies — including ***SIBL*** — as well as general operational and administrative functions, were managed under the overall direction, supervision, and control of the Houston offices of Stanford Financial. SIBL itself never had a marketing or sales arm in Antigua; rather it depended entirely on all the separate promoter or "feeder" companies like SGC, SFIS, and STC to sell its CDs. The head of Stanford Financial's global sales operation for the marketing and sale of SIBL CDs was located in Houston, Texas.

22. The sales practices, directives, techniques, strategies and reward programs for Stanford Financial, including SIBL, were developed and crafted in Houston and disseminated to the various Stanford Financial branch offices around the world, including STC and SFIS. The sales force training manuals, promotional literature, and materials for SIBL, including the Spanish-language promotional materials used by SGC, STC and SFIS, were created, printed, packaged and

mailed from Stanford's Houston headquarters to the other Stanford Financial sales offices around the world to be utilized by the local sales force in each country.

23. In addition, mandatory sales training for the Stanford Financial sales force for SIBL CDs was conducted principally in Houston (known to the foreign financial advisers as the "Houston experience") by Stanford Financial personnel. In those mandatory training sessions, sometimes twice a year, Stanford Financial's financial advisers ("FAs") were trained to sell the image of Stanford Financial. The "script" for why SIBL was a safe and secure place to invest money, as set forth in the training manuals and reinforced "live" in Houston, was drilled and drilled again into their heads.

C. The Anatomy of the Stanford Ponzi Scheme

24. The reality of Allen Stanford's empire was that Stanford Financial was nothing more than a massive, worldwide Ponzi scheme. The gist of the fraud was actually quite simple: (1) sell the offshore SIBL CDs through a flashy marketing campaign designed to trick investors into believing they were purchasing safe, secure (even insured) and highly liquid CDs that were regulated in the United States because SGC was a U.S. licensed broker/dealer; while at the same time (ii) maintaining a veil of secrecy over the SIBL asset portfolio and what Stanford was actually doing with the CD investors' money (which ended up being whatever Allen Stanford wanted). Thus Allen Stanford and Stanford Financial went to great lengths to keep prying eyes, particularly regulatory eyes, away from SIBL's operations and, especially, its asset portfolio.

25. SIBL was actually insolvent (i.e., its liabilities exceeded the fair value of its assets) from at least 1999 and most likely since inception, yet it continued selling CDs to the bitter end. Stanford induced investors to buy CDs by offering unusually consistent and above-market rates, publishing fraudulent financial statements prepared by a small accounting firm in Antigua, C.A.S

Hewlett & Co., Ltd. ("C.A.S Hewlett"), furnishing other data that significantly overstated SIBL's earnings and assets, and misrepresenting its business model, investment strategy, financial strength, safety and nature of its investments, and other facts important to investors. In reality, SIBL's earnings and assets were insufficient to meet its CD-payment obligations, so the only way Stanford Financial could keep the scheme going was by using proceeds from new CD sales to pay redemptions, interest, and operating expenses. SIBL's assets were inflated to offset CD obligations and its revenues were "reverse-engineered" to arrive at desired levels. Each year or quarterly reporting period, Stanford Financial would simply determine what level of fictitious revenue SIBL "needed" to report in order to both look good to investors and regulators and purport to cover its CD obligations and other expenses. Stanford Financial would then back into the necessary revenue amount by assigning equally fictitious revenue amounts to each category (equity, fixed income, precious metals, alternatives) of a fictitious investment allocation.

D. The Beginning: Guardian International Bank

26. Stanford opened his first offshore bank, Guardian International Bank Ltd. ("GIBL"), in 1985 on the tiny Caribbean island of Montserrat (12,000 residents). In order to provide the appearance of legitimacy to aid in sales, Stanford established representative offices for GIBL in Miami and Houston, under the name of Guardian International Investment Services ("GIIS"). Guardian served as the starting point and roadmap for creating the Stanford Financial empire, as Stanford followed this same strategy for the next 24 years: utilizing an offshore bank with U.S. sales and administrative offices. GIBL's main product was a bank certificate of deposit — with rates typically 2% to 3% above the average rates available in the U.S. market — and protected by all the confidentiality associated with offshore private banking. Stanford brought in his old college roommate James Davis to help run operations.

27. By 1988 Stanford had been accused of violating banking laws in Texas for running unlicensed "feeder" sales offices in Houston for GIBL. The U.S. Office of the Comptroller of the Currency ("OCC") in 1988 and again in 1989 issued advisories concerning Stanford's similar violations of banking laws in Florida and California.

28. By 1989, the banking system in Montserrat came under investigation by British and U.S. authorities. Consequently, GIBL itself came under scrutiny for possible drug money laundering, so Stanford looked to move his bank to a new location. On November 28, 1990, the Financial Secretary of Montserrat notified Stanford that it was going to revoke Stanford's banking licenses because: (i) GIBL's auditor, C.A.S. Hewlett, was not an approved auditor;[1] (ii) GIBL was operating in a manner "detrimental to its depositors"; (iii) GIBL failed to supply satisfactory details as to its liquidity; (iv) one of GIBL's directors (Allen Stanford) was formerly bankrupt; and (v) GIBL had failed to submit annual financial statements. Before the threatened revocation could be imposed, however, Stanford picked up and re-incorporated GIBL in Antigua in December 1990 and transferred all the assets of his Montserrat-licensed bank to the new Antiguan-licensed GIBL. By May 1991, Stanford's banking license was officially revoked by the Montserrat Government (although in 1994 Stanford later sued the Government of Montserrat to have that order rescinded). In effect, Stanford simply picked up his banking operations and moved them to Antigua, and continued the same basic business plan that had proven so profitable for Stanford in Montserrat. Stanford eventually changed the name of his Antiguan bank from Guardian to Stanford International Bank Ltd. (SIBL) in 1994.

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1 The Montserrat Government determined that Stanford's accountant, whom he used continuously as SIBL's ***only*** auditor from 1987 until Stanford's collapse in 2009, fell short of the standards of qualification for an approved auditor, and the government accused Stanford of only using Hewlett to "*influence the withholding of detailed information that would normally be expected in audited financial statements.*"

E. Stanford Takes Control of Antigua to Create a Safe Haven

29. Stanford could not have perpetuated this massive fraud without his significant influence with the Antiguan Government. Stanford basically used the money he stole from Stanford Financial and its CD investors to curry favor with Antiguan officials and build a safe haven for his Ponzi scheme. Stanford had fled Montserrat precisely because he could not exert sufficient pressure on the local government there, and he was swept up in Montserrat's clean-up of the banking sector in the late 1980s. When Stanford fled to Antigua in December 1990, Antigua had the reputation of being the most corrupt island in the Caribbean.

30. Stanford immediately "bought" his influence in Antigua by purchasing the ailing and insolvent Bank of Antigua, and he extracted concessions from the Antiguan Government, including permits for Stanford to establish his new Ponzi bank by replacing GIBL with SIBL and Stanford Trust Company Ltd. ("STCL"), as well as residency status in Antigua for Stanford and his top executives.

31. In 1994, Stanford further inserted himself into Antiguan political affairs by involving himself and his banks into the Antiguan Government's efforts to build a new hospital, an opportunity that arose after Allen Stanford helped the Prime Minister, Lester Bird, by flying him to Houston and paying for Bird's medical expenses after Bird thought he was having a heart attack.

32. In November 1994, Bird agreed to allow Stanford to be the "eyes and ears" of the Antiguan Government by permitting Stanford to select contractors for the hospital project, and Stanford, through his companies, assumed the role of lead financier on the project. Stanford purportedly funded an interim loan to the Government of Antigua to finance 100% of the project's architectural and engineering costs. Eventually, Stanford lent the Antiguan Government over $40

million for the new hospital through his Bank of Antigua. The impoverished Antiguan Government, which in essence served as SIBL's ***only*** purported regulator, became heavily indebted to Stanford.

33. Stanford's involvement in the hospital project prompted a 1996 U.S. Congressional investigation of corruption in Antigua, spearheaded by the FBI. The Antiguan Hospital scandal set off a firestorm of negative press reports in Antigua about Lester Bird, Antiguan corruption, and Allen Stanford's influence in Antigua. In a pair of November 1995 front-page articles in Antigua's "Outlet" newspaper, the author questioned where Stanford got the money to loan the government $40 million because the Bank of Antigua likely did not have that kind of money and did not even publish its financial statements as required by Antiguan banking law. The author also complained that Lester Bird's government had basically allowed Allen Stanford to "run things" in Antigua, and that the government had been giving away Antiguan land to Stanford, including the Antiguan airport and contiguous land.

34. By 1996, Stanford was indeed flexing his muscle in Antigua. The Antiguan Government even allowed Stanford to rewrite the laws that regulated Stanford's own business activities in Antigua. In June 1995, Stanford began drafting offshore trust legislation for Antigua because Antigua had no such legislation in existence (despite the fact that Stanford had set up a "trust" company, STCL, in Antigua in 1991). Stanford's right hand and General Counsel at the time, Yolanda Suarez ("Suarez"), described how Stanford needed trust legislation for Antigua because he wanted to "develop Antigua as a platform" for offshore trust operations.

35. By 1996, Antigua was attacked in the international press for being a haven for money launderers and drug smugglers. Offshore banks were being established left and right. Stanford felt this undesirable press coverage would eventually disrupt or endanger his own fraudulent business. He decided that he needed to "clean up" Antigua's reputation. In September 1996, Stanford's agents

directed a letter to Antigua's Prime Minister Lester Bird offering suggestions on how Antigua could clean up its banking sector. The letter pointed out how Antigua had recently been the subject of some terrible reports in the press, including an article in the Washington Post describing how Antigua and its offshore banking sector had become a haven for fraudsters and con artists. The letter then suggested fifteen steps the Government of Antigua could take in the banking and trust areas to establish some credibility for Antigua's financial sector.

36. In June 1997, at Stanford's instigation, the Antiguan Government formed and chartered the "Antiguan Offshore Financial Sector Planning Committee" to formulate recommendations to reform the Antiguan offshore banking sector. Not surprisingly, Allen Stanford was appointed to chair the Committee. The Committee formed a Task Force to (i) review all offshore banks licensed in Antigua to ensure they were legitimate, and (ii) evaluate Antigua's banking regulatory regime and make recommendations to address any weaknesses identified.

37. Allen Stanford appointed every member of the Task Force, and every one of them was on Stanford's pay roll. The members of Stanford's Task Force included three of Stanford's outside lawyers; Kroll executives Tom Cash and Ivan Diaz; and several partners or associates from Stanford's domestic U.S. auditor BDO Seidman, namely Michael Ancona, Jeffrey Balmer, Keith Ellenburg, and Barry Hersh. No Antiguan citizen served on the Task Force.

38. On September 15, 1997, the Task Force outlined some of its recommendations "for further development and eventual implementation" by the Antiguan Government. In the section entitled "International Cooperation", the Task Force wrote that, while it was important for the Antiguan Government to cooperate with the judicial and regulatory authorities of other countries, at the same time, "*it is essential that Antigua and Barbuda not permit the wealth of its people and businesses to become the targets of overly aggressive enforcement actions*." **One way to avoid**

such "overly aggressive enforcement actions," according to the Task Force, was to revise the list of "prescribed offenses" in Antiguan law such that the Antiguan Government would only be required to cooperate with foreign governments with respect to the *"most serious of crimes, as intended, and not to lesser crimes which could conceivably be included under such vague terms as <u>'fraud' or 'false accounting'</u>."*

39. The Task Force worked closely with Wrenford Ferrance, an Antiguan Government official that Prime Minister Bird nominated as the Government's representative and liaison to the Task Force. Although he was appointed by Prime Minister Bird to serve as Antigua's Director of International Business Corporations, Ferrance looked to Stanford's agents on the Task Force for guidance.

40. Stanford's reforms in Antigua created a new Antiguan regulatory body, the International Financial Sector Authority ("IFSA"), that was charged with supervising and regulating the offshore banking sector. Incredibly, Stanford was appointed as the ***Chair of the IFSA***, and one of his U.S. lawyers served along with Stanford's Antiguan lawyer, Errol Cort, who also happened to be the Attorney General of Antigua. As a former member of the British High Commission in Barbados, Rodney Gallagher, put it: "***Stanford effectively became the man who controlled the regulator.***"

41. After the IFSA was set up, according to news reports, Stanford's first order of business was to seize all the banking records of SIBL's offshore bank competitors in Antigua. Althea Crick, an Antiguan woman who had been appointed as the executive director of the IFSA, refused to turn the records over to Stanford. So on February 8, 1999, Stanford sent his agents to the IFSA offices in the middle of the night, where they took the locked door off of its hinges and

stormed in and seized the file cabinets containing the confidential bank records and carted them off to Stanford's offices to be copied.[2]

42. The U.S. Government responded to Stanford's banking reforms and other shenanigans. In April 1999, the U.S. Treasury Department's Financial Crimes Enforcement Network ("FinCEN") issued an Advisory (the "Advisory") to warn banks and other financial institutions that banking transactions involving Antigua should be given enhanced scrutiny because the Antiguan government had *significantly weakened* its banking laws and regulatory agencies. The Advisory also warned that the Antiguan government's new Stanford-created and Stanford-staffed regulatory agency, IFSA, was rife with conflicts of interest because its "*board of directors includes representatives of the very institutions the Authority is supposed to regulate*." According to the Advisory, this "*rais[ed] serious concerns that those representatives are in fact in control of the IFSA, so that the IFSA is neither independent nor otherwise able to conduct an effective regulatory program in accordance with international standards*." The Advisory continued,

> *The amendment of the Money Laundering (Prevention) Act, combined with changes in [Antigua's] treatment of its offshore financial services sector, are likely to erode supervision, stiffen bank secrecy, and decrease the possibility for effective international law enforcement and judicial cooperation regarding assets secreted in [Antigua]. These changes threaten to create a 'haven' whose existence will undermine international efforts of the United States and other nations to counter money laundering and other criminal activity, a concern of which the United States has repeatedly made the government of [Antigua] aware. The actions taken by the government of [Antigua] that weaken that nation's anti-money laundering laws and oversight of its financial institutions necessarily raise questions about the purposes of transactions routed into or out of [Antigua] or involving entities organized or domiciled . . . in [Antigua].*

43. As described below, from 2005 through 2009, Defendants Proskauer, Chadbourne, and Sjoblom relied on some of these bank secrecy provisions to thwart several subpoenas and

2 Michael Bilton, "*The Texan Who Fell to Earth*", The Sunday Times, January 9, 2011.

requests for documents from the United States Securities and Exchange Commission ("SEC") and other regulators who were investigating Stanford's CD program. Stanford's (and Defendants') constant refrain was that SIBL was prohibited by Antiguan secrecy laws from turning over any of its financial records to the SEC and other regulators.

44. Now established in Antigua, Stanford quickly set about strengthening his symbiotic relationship with the local government. In return for political cover, Stanford eventually became a major source of funding for the entire island, eventually loaning tens of millions of dollars to the Antiguan Government. Stanford even bought the Antiguan newspaper, the Antiguan Sun, to influence the media. By 2004, the Antiguan Government owed over $87 million to Stanford Financial — nearly ***half*** the island's annual tax revenues — and certain of its loans were secured by the government's tax revenues and medical fund.

45. Stanford leveraged his influence with the Antiguan Government through corruption. Besides paying some $48,000 for Prime Minister Lester Bird's medical treatment ($28,000 billed to Stanford Financial in Houston for the private medi-vac plane, and $20,000 for the hospital and treating physician bills), Stanford also corrupted other members of the Antiguan Government through loans and kickbacks disguised as political contributions. Stanford's various companies loaned tens of thousands of dollars to various Antiguan Government officials. For example, Stanford loaned $30,000 to the Antiguan Minister of Finance, Molwyn Joseph, in February 1992, evidenced by a Promissory Note. The Minister of Finance, *who during this time period was ultimately charged with overseeing Stanford's offshore bank*, never paid a dime on that loan.

46. One of the ways that Stanford disguised his bribes to Antiguan government officials is evidenced by a May 6, 1994 Memo from Stanford to his personal assistant Jean Gilstrap, in which Stanford instructed Gilstrap to mark as "paid" the Promissory Note for the loan made to Molwyn

Joseph (again, at that time the Antiguan Minister of Finance) and record it on the company's books as a political contribution. He further noted that, prior to the recent Antiguan elections, Stanford had informed Joseph that he would contribute to Joseph's political party, the ALP, by "liquidating" Joseph's personal note. Stanford also instructed Gilstrap to make sure she noted that the "contribution" was made "after" the elections.

47. Also in January 1996, Suarez prepared several spreadsheets that detailed money Stanford had loaned to senior Antiguan government officials, either through direct loans or through credit cards, as well as loans made to the Antiguan Government. This document revealed that at the time, **11 senior Antiguan Government officials**, including Lester Bird and Molwyn Joseph (who had received a new $100,000 loan from Stanford), owed Stanford a combined $140,000.

48. Stanford's efforts to corrupt Antiguan officials were brazen. A November 2003 newspaper article reported that Stanford had been accused of bribing two Antiguan Government officials — his old friend Molwyn Joseph and Gaston Browne — by giving them $100,000 each as inducement for their help in a land swap that Stanford was trying to orchestrate. The article reported that members of the Antiguan opposition party had brought motions to suspend both ministers. The article further reported that Stanford's response to the accusation was to hold a press conference in which he "surprised" the audience by cavalierly declaring that he was going to donate an additional $200,000 to each of the two Antiguan officials.

49. Antigua's corruption and lax banking regulations is likewise borne out by the Plea Agreement entered by Stanford CFO Jim Davis (the "Davis Plea"), as well as by the June 18, 2009 federal grand jury Indictment of *inter alia*, Allen Stanford, Laura Pendergest-Holt, and Leroy King ("King"), Stanford's good friend and former head of Antigua's financial regulator, the Financial Services Regulatory Commission (the "FSRC"), which replaced the previous IFSA. The Davis Plea

and Indictment allege that for years, King — while acting as the CEO of the Antiguan FSRC — accepted bribes from Stanford and/or his associates in return for his assurance that the FSRC "looked the other way" and would not properly perform its regulatory functions or supervise SIBL. King even entered into a bizarre "blood brother" ritual with Allen Stanford in which he agreed to forever be bound to Allen Stanford. As part of this blood-brother relationship and bribery, King became Stanford's regulatory spy and "inside man" who relayed information to Stanford concerning the SEC's investigations of Stanford Financial Group and SIBL from 2005 all the way until 2009. This was just part of Stanford's broader conspiracy to keep his Ponzi scheme alive by evading and obstructing regulatory oversight of SIBL's activities, at every turn, and in every country.

50. The Indictment and Plea Agreement also describe how Stanford's Antiguan auditor, C.A.S Hewlett, accepted "special" compensation from Stanford's secret "SocGen" "slush fund" account to fraudulently report SIBL's financial condition for use in SIBL's annual reports for some twenty years. Hewlett forwarded those fraudulent "audits" to Stanford Financial in Houston, Texas every year for 20 years with full knowledge that the fraudulent audits would be utilized in Stanford's marketing materials to defraud depositors.

F. Stanford Was Under Constant U.S. Government Investigation

51. Stanford Financial was under virtually constant investigation by various agencies of the U.S. Government for 20 years. In 1991, following the OCC advisories about GIBL, the FBI, U.S. Customs, and local Mexia, Texas law enforcement authorities investigated Stanford's possible involvement in drug money laundering. This investigation resulted in a U.S. Customs search of Stanford's private jet aircraft when he returned from the Caribbean. The FBI documents noted that, subsequent to that search of Stanford's plane, "*the Stanfords proceeded to fire a number of employees whom they suspected might be providing information to the authorities*."

52. U.S. Customs documents from this same time period described GIBL as having "*constant cash flow*" from foreign depositors but "*no regulation of its activities*," and documents indicated that U.S. Customs in San Antonio also had taken an interest in the "*possible smuggling activities of principals in the Stanford organization*." Other documents from the FBI reveal that Stanford had been under constant investigation for possible money laundering since 1989, and the FBI had even sent an agent to London as part of the investigation in September 1992. Stanford was well known to U.S. authorities and "stayed very prominently on the radar for years," says one former F.B.I. agent who investigated Stanford. "There was a series of investigations. Obviously none of them ever ended in indictments. But we're talking various F.B.I. field divisions, with multiple agents, then multiple agencies."

G. Stanford Expands its Sales Operations in the United States

53. After having failed to establish a fully licensed representative office in the United States for his offshore bank, SIBL, Stanford finally crossed the Rubicon that would ultimately lead to his downfall by establishing an SEC-licensed securities broker/dealer and investment adviser company, Stanford Group Company (SGC), in 1996. SGC's primary mission (as usual) was to refer customers to SIBL in Antigua for the purchase of fictitious CDs.

54. At roughly the same time, Stanford also moved to expand his U.S.-based sales of SIBL CDs to Latin American investors by establishing a representative office for his Antiguan offshore trust company, Stanford Trust Company Ltd. (STCL). In September 1998, after a year of studying this option, Stanford decided to establish a trust representative office in Miami. After heavy lobbying of Florida officials, Stanford established the office, naming it Stanford Fiduciary Investor Services ("SFIS"). Stanford expanded the SFIS model by opening additional SFIS "trust representative offices" in Houston and San Antonio in 2001 and 2005. SFIS's sole mission was to

sell SIBL CDs to Latin American investors, including exclusively Mexican investors through the San Antonio office. By 2005, sixteen of the SFIS Miami employees were actually licensed securities brokers doing nothing but selling SIBL CDs. More than $1 billion of SIBL CDs were sold through the Miami office alone.

55. In 1998, Stanford also established a separate trust company in Baton Rouge, Louisiana, Stanford Trust Company (Louisiana) (STC), so he could sell SIBL CDs to U.S. investors through their IRA accounts.

56. In November 1998, Stanford caused SIBL to file a Regulation D exemption with the SEC. The exemption allowed Stanford Financial Group, via the broker/dealer SGC, to sell SIBL CDs to U.S. "accredited investors" in the United States without registering them as securities. Stanford's initial Reg. D filing listed CD offerings totaling only $50 million.

57. After the initial Reg. D filing in 1998, Stanford Financial began to exploit U.S. investors and Allen Stanford's empire grew exponentially. SIBL filed an amended Reg. D in November 2001 to increase the Reg. D offering to $150 million. SIBL filed two additional amendments in 2004 (March and then November) increasing the size of SIBL CD offerings to $200 million and then ***$1 billion***, clearly evidencing the massive sales of SIBL CDs taking place in the United States. Finally, in November 2007, SIBL filed *yet another* Reg. D amendment to increase the size of the offering to ***$2 billion***.

58. By 2003, Stanford Financial had printed and distributed some 30,000 offering brochures for SIBL CDs to its FAs. In 2005, Stanford Financial launched an intensive television advertising campaign in the United States to promote the sale of SIBL CDs. By March 2006, Stanford Financial had distributed 4,424 SIBL CD "Accredited Investor" packets to investors under the Reg. D offering.

H. Stanford Breeds Loyalty Through Exorbitant Compensation

59. From 2004 to 2008, Stanford Financial grew into a high-powered sales and marketing machine. The different Stanford Financial sales offices competed with each other for CD sales, and developed team names like "Money Machine", "Aztec Eagles" (the Mexico team) and "Superstars". To market and sell the SIBL CDs, Stanford Financial established a commission structure that provided huge incentives for Stanford Financial's FAs, including those at SGC, to "push" the SIBL CDs on investors. SIBL paid disproportionately large referral fees to SGC for the sale of its CDs: SGC received a 3% referral fee upon each sale of a SIBL CD, with 1% going to the SGC broker who made the sale. The FAs were eligible to receive an additional 1% trailing commission throughout the term of the CD. Stanford also held "sales contests" and gave lavish gifts to the FAs that sold the most CDs. Stanford Financial used this generous commission structure to recruit established financial advisers, and to reward those advisers for aggressively selling SIBL CDs to investors. Of course, these kind of commission and bonus structures are extremely rare for bank CDs, largely because they cannot be sustained economically.

I. Dissecting the Fraud

60. The ultimate reality of Stanford Financial is that it was, at all times, a Ponzi scheme based out of Houston, Texas. Stanford Financial, acting through its international network of companies and FAs: (i) lured money from investors; (ii) gave them a virtually worthless "IOU" piece of paper called a "Certificate of Deposit" in return; and (iii) then diverted the investors' money to support Allen Stanford's lavish lifestyle, prop up other Stanford Financial entities, and acquire various illiquid and high-risk assets, including unsecured, fictitious personal "loans" to Allen Stanford and massive amounts of Antiguan real estate. None of the investors' money was segregated. Instead, investor money was commingled within Stanford Financial and then spread

among all the various companies that comprised Stanford Financial to fund the group's operations. As such, Stanford Financial was violating the Investment Company Act by operating as an unregistered "fund" and selling its internal securities product (the CDs) to investors. Additionally, Section 47(b) of the Investment Company Act provides:

> A contract that is made, or whose performance involves, a violation of this [Investment Company] Act, is unenforceable by either party to the contract who acquired a right under the contract with knowledge of the facts by reason of which the making or performance violated or would violate any provision of this Act . . . unless a court finds that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of this Act. 15 U.S.C. § 80a-46.

61. Stanford Financial was never registered nor authorized to operate as an investment company in the United States, a fact that was never disclosed to CD investors, who were consistently and uniformly told verbally and via the Stanford Financial Group promotional materials that, e.g., Stanford Financial was compliant, authorized, and regulated by the SEC and Financial Industry Regulatory Authority ("FINRA"), and backed by insurance coverage from the Securities Investor Protection Corporation ("SIPC") and Lloyd's of London. CD investors were never told that the acts of Stanford Financial Group and its unregistered investment company were *void as a matter of law* under Section 47 of the Investment Company Act.

62. As part of this fraud, Stanford Financial Group also uniformly touted the high liquidity of SIBL's investment portfolio. For example, in its marketing materials distributed to CD investors from at least 1995 through 2009, Stanford Financial emphasized the importance of the SIBL CD's liquidity, stating (under the heading "Depositor Security") that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors." *None of that was true*. Likewise, Stanford Financial trained its FAs to stress liquidity in their marketing pitches to prospective investors, telling the brokers and advisers that the "liquidity/marketability of SIBL's

invested assets" was the "most important factor to provide security to SIBL clients . . . ." To ensure investors would buy SIBL CDs, Stanford Financial, through its FAs, assured CD investors that SIBL's investments were liquid and diversified, and therefore that the CDs themselves were highly liquid and could be redeemed with just a few days notice. But in fact, nearly all of SIBL's investments were concentrated in high-risk, illiquid ventures: (i) unsecured, personal "loans" to Allen Stanford of at least $1.8 billion; (ii) private equity investments in non-public companies; and (iii) extensive real estate holdings in Antigua and elsewhere in the Caribbean. Moreover, Stanford Financial fraudulently inflated the value of these claimed investments.

63. Contrary to Stanford Financial's representations (both verbal and via the promotional materials) to investors regarding the liquidity of SIBL's portfolio from 1995 through 2009, significant portions of SIBL's portfolio were ***misappropriated*** by SIBL's sole shareholder, Allen Stanford, to fund his lavish lifestyle and invest heavily in Caribbean real estate development ventures.

64. At the end of 2008, the largest segments of SIBL's portfolio consisted of back-dated "loans" to Stanford and over-valued real estate, primarily in the Caribbean. By February 2009, Allen Stanford had misappropriated at least $1.8 billion through bogus personal loans to himself, and had "invested" an undetermined amount of funds in speculative, unprofitable private businesses, including investments in real estate and other private business ventures in Antigua. Much of the remaining money was spent by Stanford Financial on creating and perpetuating the charade of Stanford Financial Group's image, with lavish offices, excessive bonuses and commissions paid to lure and retain top performing sales personnel, extravagant special events for clients and employees, and the other accoutrements necessary to shore up the Stanford Financial image of wealth, power, and prestige. None of this was disclosed to CD investors, ever.

65. As alleged in the Davis Plea and in the criminal Indictment of Allen Stanford and his associates, Stanford and his CFO Jim Davis fabricated the nature, size and performance of SIBL's investment portfolio and lied to CD investors about that portfolio. Gilberto Lopez and Mark Kuhrt, accountants for Stanford Financial Group companies, fabricated the financial statements. Using a pre-determined return on investment, typically provided by Stanford or Davis, Lopez and Kuhrt reverse-engineered the bank's financial statements to report investment income that SIBL did not actually earn. Information in SIBL's financial statements contained in its annual reports, created and issued by C.A.S Hewlett, bore ***no*** relationship to the actual performance of SIBL's purported investments. SIBL's financial statements and annual reports to CD investors were prepared, drafted, and approved by C.A.S Hewlett in conjunction with Stanford, Davis, Lopez and Kuhrt.

66. Stanford Financial sold billions of dollars of SIBL CDs by touting: (i) the bank's safety and security, including that invested funds were liquid and insured; (ii) consistent, double-digit returns on the bank's "liquid" investment portfolio; *and* (iii) high return rates on the CD that exceeded those offered by commercial banks in the United States. It was at this time in 2008, in the midst of the worldwide financial meltdown, that Stanford Financial Group began to crumble.

J. Stanford's House of Cards Finally Collapses

67. As alleged by the SEC and the United States Department of Justice, Stanford and Davis fraudulently inflated the real estate and private equity holdings in SIBL's portfolio so the bank could maintain its minimum capital requirements. But in October 2008, Stanford Financial Group began suffering liquidity problems caused by a depositor "run" on SIBL that frustrated SIBL's efforts to comply with client requests for funds transfers. SIBL's CD transaction records indicate that approximately $2 billion in CDs were redeemed from January 1, 2008 through February 17, 2009. These redemptions had a huge impact on the ability of Stanford Financial Group's FAs to

keep clients pacified, and on Stanford Financial Group's ability to keep the Ponzi scheme afloat. As a result, the FAs intensified their efforts to push the CDs on investors and bring in new money.

68. In the wake of the Madoff scandal in January 2009, Venezuelan financial analyst Alex Dalmady, as a favor for a friend, performed an analysis of SIBL's returns over the years, taken from SIBL's *publicly available* Annual Reports, and then published his findings in a Venezuelan magazine under the title "Duck Tales." His findings were then re-published in various blog postings. Dalmady concluded that Stanford Financial was nothing but another investment Ponzi scheme.

69. On February 6, 2009, Allen Stanford's old friend Frans Vingerhoedt sent Stanford an email, copying David Nanes, that illuminated Stanford Financial Group's crumbling empire:

> *[T]hings are starting to unravel quickly on our side in the Caribbean and Latin America…[w]e need to come up with a strategy to give preference to certain wires to people of influence in certain countries, if not we will see a run on the bank next week …[w]e all know what that means. There are real bullets out there with my name on [sic], David's name and many others and they are very real…[w]e are all in this together*.

70. On February 17, 2009, the SEC filed a Complaint against SGC and SIBL, as well as against Allen Stanford and Jim Davis, in the U.S. District Court for the Northern District of Texas, alleging a "massive Ponzi scheme of staggering proportions." The SEC obtained an injunction to freeze the assets of Stanford Financial Group, and Plaintiff Ralph S. Janvey was appointed to serve as Receiver to liquidate the Stanford Financial Group of companies.

71. On June 18, 2009, Stanford, Pendergest-Holt, Lopez, Kuhrt and King were indicted on 21 counts including wire and mail fraud, obstruction of an SEC investigation, and money laundering. Former Stanford Financial Group CFO Jim Davis has since pled guilty to several

crimes, including conspiracy to commit securities fraud and conspiracy to obstruct an SEC proceeding.

K. Stanford's Regulatory Obstruction and Concealment Conspiracy

72. Central to Stanford's ability to perpetuate and keep his massive Ponzi scheme alive was the need to shield SIBL from any "real" regulation and conceal the true nature of Stanford Financial's activities and, most importantly, SIBL's investment portfolio, by thwarting regulatory scrutiny at every level and in every country in which Stanford Financial operated. After having learned the lessons of Montserrat, Stanford determined that he did not want his fraudulent banking operations to be upended by a regulatory investigation again. Once ensconced in his Antiguan safe haven, from at least 1991 on, Stanford, Davis, and others — including Defendants — embarked on a campaign to protect Stanford's Ponzi scheme from outside regulatory interference, convinced that his schemes absolutely depended on his ability to conceal SIBL's true nature and activities and to keep the regulators at bay around the world. Nowhere were these efforts more aggressive than in Antigua.

73. The success of Stanford's Ponzi scheme required concealment, and concealment from regulators became the scheme's main objective. In order to accomplish this aim, Stanford resorted to lies, trickery, bribery, "blood brother" rituals, obstruction of regulatory investigations, and other machinations to thwart or otherwise co-opt regulators and insulate himself and his operations from regulatory scrutiny in several countries.

L. The SEC Suspected Stanford Was a Fraud Since 1997

74. According to the March 31, 2010 Report of Investigation from the SEC Office of Inspector General ("OIG"), the SEC had suspected Stanford was a fraud or Ponzi scheme since

1997.[3] From 1997 through 2004, including during the time when Defendant Sjoblom was a high-ranking enforcement lawyer at the SEC (1997-1999), the SEC's examinations of Stanford (1997, 1998, 2002 and 2004) concluded that Stanford's offshore CD program was likely a Ponzi scheme, and that Stanford was committing fraud on his investors.

75. After the SEC's first broker/dealer ("B/D") examination of SGC in 1997, the SEC B/D examination staff concluded that the SIBL CDs being peddled by SGC were "not legitimate CDs" and that Stanford was deceiving investors into believing the CDs were low risk, safe and secure investments. The SEC concluded that the returns SIBL was offering on the supposedly "low risk" CDs were "absolutely ludicrous" and bore no relation to market realities. The SEC B/D exam staff also noted that SGC in 1997 could not provide any information regarding SIBL and what SIBL was doing with the money to justify SGC's recommending the SIBL CDs to its brokerage clients. The B/D examiners were also concerned by the revelation that Allen Stanford had made a cash contribution of $19 million to SGC, while at the same time SIBL had "loaned" Allen Stanford $13.5 million and also "loaned" an additional $5.4 million to Stanford Financial Group. The SEC B/D exam staff concluded that Stanford was likely a fraud and/or a Ponzi scheme, and that a full SEC investigation of Stanford was warranted.

76. In May 1998, while Sjoblom was still working in the SEC's Enforcement division, the Enforcement division opened a Matter Under Investigation ("MUI") on Stanford in response to the B/D exam staff's referral as well as based on information received from U.S. Customs that Stanford was laundering money. In fact, between July and September 1998, the SEC received requests for access to its investigative files regarding Stanford from the F.B.I.; the Department of Justice; the IRS; and the U.S. Customs Service. The 1998 Stanford MUI was classified as securities

3 SEC OIG, Report of Investigation, Case No. OIG-526, March 31, 2010, at 16.

fraud and "possible organized crime." But thereafter the SEC, due to questions of jurisdiction over Antiguan-based SIBL, only made a voluntary request to SGC for documents related to SIBL. Of course Stanford refused to voluntarily produce any SIBL-related documents.

77. Without any means of compelling the production of SIBL-related documents, the SEC, acting under the direction of SEC Enforcement lawyer Spencer Barasch, closed the MUI in August 1998, despite the fact that members of the Enforcement staff thought Stanford was running a Ponzi scheme. One of the SEC B/D exam staff members testified to the SEC's OIG that Barasch closed the investigation after receiving verbal assurances from Stanford's outside lawyer, Wayne Secore, who formerly headed the SEC's Fort Worth office, that Stanford was legitimate and that "there was nothing there." Barasch and other SEC staff testified that the reasons the 1998 Stanford MUI did not go forward was because of a lack (at that time) of U.S. investors in the SIBL CDs, and the inability of the SEC to get access to the SIBL records because of jurisdictional hurdles.

78. In June 1998, while the Stanford MUI was still open, the SEC's investment adviser ("I/A") examination group began their own examination of SGC. The I/A examiners concluded that SGC's recommendations to its clients to purchase the CDs was inconsistent with SGC's fiduciary duties to its clients and likely violated Section 206 of the Investment Advisers Act. On July 16, 1998, the I/A exam group sent SGC a letter in which the SEC raised these concerns. Specifically, the I/A exam staff asked SGC to produce all documentation related to its own due diligence on the SIBL CDs that justified its recommendation to clients to invest in the CDs. SGC responded that it didn't have access to information about SIBL. Like the B/D exam staff, the SEC's I/A staff also concluded that Stanford likely was a fraud.

79. In November 2002, the I/A exam group conducted another examination of SGC. In its December 2002 Examination Report, the I/A exam staff once again concluded that Stanford was a

fraud or a Ponzi scheme and assigned SGC a risk rating of "1", the highest risk rating possible. The I/A exam staff was still concerned about the reported above-market returns on the supposedly "low risk" SIBL CDs, as well as SGC's lack of due diligence materials on SIBL to support SGC's recommendation that its clients invest in the SIBL CDs, which violated Section 206 of the Investment Advisers Act. The 2002 Examination Report describes how the SEC I/A exam staff was concerned that "[t]here was ***no indication that anyone at SGC knew how its clients' money was being used by SIBL*** or how SIBL was generating sufficient income to support the above-market interest rates paid and the substantial annual three percent trailer commissions paid to SGC."

80. But when the SEC I/A exam staff sent a deficiency letter to SGC in December 2002 complaining about SGC's lack of due diligence information on SIBL, SGC'S Compliance officer, Jane Bates, did an "about face" and responded in a March 2003 letter that she "regularly" visited SIBL in Antigua and participated in quarterly calls with SIBL's CFO and received quarterly information regarding SIBL's portfolio allocation and investment strategies. The I/A exam officer interviewed by the OIG testified that he believed Jane Bates was either "out of it" or she was lying.

81. The 2002 Examination Report also found that the Stanford website provided all the information needed for clients to purchase SIBL CDs, and therefore constituted a "general solicitation" or public offering of the SIBL CDs in violation of Reg D requirements. The SEC exam staff forwarded its 2002 Examination Report, with its findings of possible violations by SGC of Section 206 and sales of unregistered securities, to Enforcement. But once again Spencer Barasch directed that no action be taken.

82. In December 2002, the SEC received a letter from a Mexican citizen concerned about her elderly mother's investments in Stanford describing how Stanford Financial FAs had assured her mother (and other investors) that SIBL CDs were backed by private insurance from Lloyd's. The

SEC, acting under the directions of Spencer Barasch, once again took no action with respect to that letter. Barasch told his colleagues that he referred the matter to the Texas State Securities Board, but the TSSB has no record of any such referral. SEC witnesses questioned about this incident expressed incredulity that Barasch would make such a referral to the TSSB.

83. In 2003, the SEC received two new complaints regarding Stanford, one of which came from a former Stanford FA and alleged that Stanford was a "massive Ponzi scheme." But once again the SEC, under Barasch's direction, concluded that it would be difficult to prove a fraud case against SIBL since SIBL would likely not produce any records.

84. In October 2004, the SEC's B/D exam staff began yet another examination of SGC, this time for the purpose of sparking an SEC enforcement action. In its December 2004 exam report on SGC, the SEC's B/D exam group concluded that the SIBL CD program was a "very large Ponzi scheme" evading federal regulation, that the CDs were risky securities and were CDs in name only, and that Stanford's marketing campaign surrounding the CDs was designed to "lull investors into a false sense of security" by comparing the SIBL CDs to traditional U.S. bank CDs. The exam staff also concluded that, since SGC did not have adequate information to determine what SIBL did with the investors' money, SGC was violating the "suitability" rules and its fiduciary duty to clients by recommending the SIBL CDs in violation of Section 206 of the Investment Advisers Act.

85. As part of the work on the 2004 Exam, SEC lawyer Victoria Prescott contacted British authorities to check out SIBL's alleged audit firm, C.A.S. Hewlett. British authorities (the Financial Services Authority) reported back that they had no information on Hewlett, and had never even heard of the firm. Furthermore, the authorities could not even find a website for the firm on the Internet, which struck Prescott as odd for a firm that was the only auditor for a bank like SIBL with over $2 billion (at that time) in assets.

86. Nevertheless, Barasch made it clear at a March 2005 meeting that he would not permit the SEC to bring an enforcement action against Stanford. Therefore the SEC exam staff waited until after Barasch left the SEC on April 14, 2005 before they referred the case over to SEC's Enforcement division. The 2005 Enforcement Referral memo noted that, as of October 2004, SGC customers held approximately $1.5 billion in SIBL CDs, with $227 million held by U.S. investors. The 2005 Enforcement Referral also pointed out that SGC continued to tell the SEC that it could not get any information from SIBL as to the composition of SIBL's portfolio or how SIBL invested the money, and that SIBL claimed that Antiguan bank secrecy laws prevented it from producing such information to SGC (and from there to the SEC). The SEC Enforcement Referral eventually led to the opening of a new MUI of Stanford later in April 2005, which led eventually (after another attempt to close the investigation) to a formal order of investigation.

87. **The bottom line is that from 1997 to 2005, the SEC's examination and enforcement staff believed that Stanford was operating some kind of fraud or Ponzi scheme.** OIG Report, at 103 ("Everybody, everybody believed that this was probably a Ponzi scheme"). Then Defendant Sjoblom, with 20 years of experience as a high-level SEC Enforcement lawyer, entered the scene and spent the next four years delaying and obstructing the SEC's investigation of Stanford by lying to the SEC, telling the SEC that he himself had checked Stanford out and that it was not a Ponzi scheme, advising Stanford to hide documents from the SEC, and even omitting to disclose the existence of the formal SEC investigation in audit response letters at Stanford's request.

M. Stanford's Anti-Regulatory Conspiracy Gains Urgency

88. In early June 2005, as part of the SEC's 2005 MUI on Stanford, the SEC sent a letter to Leroy King, head of the FSRC, the Antiguan regulatory agency that had authority over SIBL, describing the SEC's investigation of Stanford and its beliefs that Stanford was perpetrating a fraud

and requesting the FSRC's cooperation. King immediately provided a copy of that letter directly to Allen Stanford.

89. Staff from the SEC then called King in Antigua to discuss the SEC's concerns. King reacted by telling the SEC that the allegations cited in the SEC's letter sounded more like "innuendo" than fact, and that it wasn't clear to him that the allegations rose to the level of criminal conduct. As such, King stated that he could not provide much assistance, although he did "perk up" when the SEC staff member told him that there were individuals who believed that Allen Stanford was stealing the money. King demanded to know the identities of these individuals (likely so he could tell Stanford).[4]

90. On June 21, 2005 the SEC sent an investigatory referral letter to the NASD/FINRA in which the SEC outlined its concerns that, *inter alia*, (1) Stanford was committing securities fraud; (2) the CDs constituted "securities" under U.S. law; (3) Stanford appeared to be illegally operating an unregistered investment company (a mutual or hedge fund) in the United States; (4) as of 2004, 63% of SGC's revenues were derived from the sales of CDs; and that (5) Stanford had sold over $1.5 billion in CDs, making it a potentially large problem. As a result, the NASD began its own investigation of Stanford.

91. In response to the SEC investigation initiated in the summer of 2005, and as alleged in the Jim Davis Indictment, Allen Stanford, Davis and their co-conspirators blocked and obstructed the SEC investigation at all turns from the summer of 2005 through February 2009. The Indictment alleges that from June 2005 through March 3, 2009, Stanford, Pendergest-Holt, Davis and others engaged in a conspiracy in the Southern District of Texas to "corruptly influence, obstruct and

impede, and endeavor to influence, obstruct and impede, in whole or in part, a pending proceeding before…the SEC, in violation of 18 U.S.C. §1505." The Indictment alleges that the object of the conspiracy was to obstruct the SEC's investigation of Stanford Financial and SIBL so as to "perpetuate and prevent detection of an ongoing fraud" so that Stanford Financial and SIBL could "continue receiving economic benefits from the fraud."

92. With Defendants' help, the central strategy of this obstruction campaign evolved into preventing the SEC from ***ever*** getting documents regarding SIBL's investment portfolio. Stanford's strategy became a shell game, whereby Stanford would tell the SEC that it was prohibited by law from turning over documents related to SIBL's portfolio, and that the SEC would have to get the documents from Leroy King. Of course, Stanford (and Defendants) knew that Leroy King would never turn the documents over to the SEC.

N. Chadbourne Participates in the Stanford Ponzi Scheme

93. In the summer of 2005, Stanford retained Defendant Chadbourne and its law partner, Defendant Sjoblom, to represent Stanford Financial and SIBL in the SEC investigation and further his efforts to obstruct that investigation. Chadbourne already had a pre-existing relationship with Stanford because Chadbourne partner Talbert Navia was good friends with Stanford General Counsel Mauricio Alvarado. In 2004, Chadbourne's Navia had submitted a proposal to Stanford offering Chadbourne's services to help Stanford establish an offshore "master" fund that would serve as a "fund of hedge funds."

94. Sjoblom, a partner in Chadbourne's Washington, D.C. office, was the perfect fit for Stanford because he had been a high-ranking SEC Enforcement lawyer for 20 years prior to joining

4 On or about July 8, 2005, the SEC discovered information detailing how Leroy King got his job at the FSRC based on Allen Stanford's recommendation, that King was part of the corrupt Lester Bird "gang," and that Stanford wielded enormous power in Antigua in part through ownership of the newspapers, the airport, restaurants, and several other properties. In short, he "was the money guy" in Antigua.

Chadbourne. In that role, Sjoblom personally knew many of the SEC lawyers involved in the Stanford investigation from the SEC's Ft. Worth office. On June 9, 2005 Navia called Sjoblom to discuss Stanford's potential retention of Chadbourne and Sjoblom to help with the SEC investigation.[5] Navia and Sjoblom then held a teleconference the next day, June 10, 2005, with Alvarado. Alvarado described Stanford's business operations and his issues with the SEC, including the SEC's belief that Stanford was operating a Ponzi scheme. Alvarado mentioned to Navia and Sjoblom that former SEC lawyer Wayne Secore also assisted Stanford with SEC issues, but Stanford wanted Chadbourne and Sjoblom's help to put a stop to the SEC investigation as quickly as possible.

95. Sjoblom went to work immediately. His first action was to perform his own due diligence on Stanford. In late June 2005, he traveled to Houston to conduct interviews of various SGC employees over two days. At the same time, Stanford also provided Sjoblom with a copy of the NASD claim filed against SGC by Charles Hazlett, which described how Hazlett was pressured into selling SIBL CDs and fired when he refused to do so and questioned the financial wherewithal of SIBL.

96. Sjoblom interviewed several SGC FAs at Stanford's global headquarters in Houston, Texas on June 29 and June 30, 2005, including SGC's top management officials Jay Comeaux, Alvaro Trullenque, Jason Green, and Danny Bogar. Sjoblom asked them all if they knew how SIBL invested SGC's clients' money, and none of them could tell Sjoblom anything about SIBL's portfolio other then general categories and asset classes lifted from SIBL's annual reports. One FA, Doug Shaw, told Sjoblom that SIBL was not a commercial bank, and that the CDs were just "called" CDs, but were really more akin to corporate bonds. The FAs also told Sjoblom about the 1% trailing

5 Stanford's first choice for this assignment was Spencer Barasch, who had recently retired from the SEC, but the SEC's Ethics office disqualified Barasch from representing Stanford in 2005, although (as discussed below) he would go on to help Stanford and Sjoblom in 2006.

commission they received on every million dollars their clients invested in the CDs, as well as the sales contests Stanford held to promote the sales of the SIBL CDs. Jason Green told Sjoblom he was the "Team Captain" for the U.S. SGC sales team to compete against the non-U.S. producers from Venezuela and other countries, and that it was all to promote the SIBL CD sales program. Danny Bogar told Sjoblom about the Stanford "Top Producers Club" for FAs that sold more than $1 million in new (as opposed to renewed) SIBL CDs in a given year.

97. Sjoblom also met with Stanford Compliance officer Rep Poppell on June 30, 2005, who described for Sjoblom the SEC's 2004 examination of SGC. Poppell told Sjoblom that he had told the SEC "ad naseum" that he (Poppell) did not know where the SIBL money was invested. He also told Sjoblom that the SEC Enforcement attorney he was dealing with, Jennifer Brandt, had told him the SEC suspected the SIBL CD program was a Ponzi scheme. Sjoblom never asked Poppell, or anyone else at Stanford in 2005, about SIBL's auditor C.A.S. Hewlett. He never even bothered to look Hewlett up on the Internet in 2005. It was also during this June 2005 trip to Houston that Sjoblom reviewed SIBL's disclosures to U.S. "accredited investors" in its CD program.

98. On August 9, 2005, Sjoblom asked one of his associates, Ben Ogletree, to contact Jennifer Brandt at the SEC to inquire as to the status of the investigation of Stanford. Ogletree reported back to Sjoblom that the SEC's investigation had been transformed into a "formal" investigation, and that the SEC wanted to obtain SIBL's records showing how the money was invested but that SGC was taking the position that it "had no access to such records." He also told Sjoblom that Brandt wanted to know if Chadbourne was representing SGC or SIBL or both. Sjoblom told Ogletree that he represented both SGC and SIBL, but asked him not to tell the SEC, because "[m]aybe we keep them [SEC] from getting the bank records by not representing [SIBL]."

99. Next Sjoblom traveled to Antigua to continue his due diligence, this time on SIBL. Sjoblom flew to Antigua on August 9, 2005 and met that day with Allen Stanford, Stanford's right-hand Chief of Staff, Yolanda Suarez, and SIBL President Juan Rodriguez-Tolentino.

100. During the meeting with Allen Stanford, Stanford showed Sjoblom his plans for the massive real estate development projects he had underway on Antigua, including the Island Club project, which was Stanford's dream project of a massive resort complex on Antigua and adjacent islands for wealthy tourists. Stanford's Chief Architect also appeared at this meeting to explain some of the details of Stanford's real estate development projects around Antigua. Thus, Sjoblom was aware of Stanford's massive Antiguan real estate investments on August 9, 2005. Indeed his own handwritten notes from this meeting reference the discussion of real estate investments, and that some of the real estate investments were funded by SIBL.

101. The next day, August 10, 2005, Sjoblom visited SIBL and was given a tour by SIBL President Rodriguez-Tolentino. Sjoblom interviewed Rodriguez-Tolentino, who described SIBL's history and the Antiguan regulatory environment under which SIBL operated. Stanford CFO Jim Davis then joined Sjoblom and Rodriguez-Tolentino for lunch. Rodriguez-Tolentino also told Sjoblom that SIBL's main clients (90-95% at that time in 2005) were people from Latin America, because Latin Americans did not like to take market risk and instead preferred to invest in conservative instruments like CDs.

102. After lunch Sjoblom met with Davis and Stanford's Chief Investment Officer ("CIO") Laura Pendergest-Holt. Sjoblom asked them who managed SIBL's investment portfolio and where the accounting records were held. Davis told Sjoblom that the "first tier" of investments was cash held in correspondent accounts and overseen by the SIBL accounting staff with the assistance of Stanford's global treasury manager, Patricia Maldonado, located in Houston. Davis

told Sjoblom that the second tier of funds was managed by a group of some 20 managers located in Canada and Europe, and monitored by the Stanford research analysts located in Memphis, Tennessee who worked for Stanford Financial Group Company under a management agreement with SIBL. Davis told Sjoblom that the third tier investments were monitored by Allen Stanford and Jim Davis and managed by European advisors and were longer-term credits such as bonds and notes issued by countries and international corporations. Davis and Pendergest-Holt also told Sjoblom that SIBL did not invest in private equity because it was not liquid, and that the ***entire*** SIBL portfolio could be converted to cash in 120 days. They also told Sjoblom that SIBL's auditor was C.A.S. Hewlett.

103. Beyond this general description of *how* the SIBL portfolio was (allegedly) managed, neither Davis nor Pendergest-Holt told Sjoblom anything about the exact composition of the portfolio, despite the fact that Sjoblom knew that this was the SEC's central concern and the reason for the SEC investigation he was retained by Stanford to provide assistance on.

104. Later that afternoon, Rodriguez-Tolentino took Sjoblom to visit Leroy King, the director of SIBL's purported regulator, the FSRC. Shortly prior to that meeting, in June 2005, King had received a confidential letter from the SEC in his capacity as head of the FSRC wherein the SEC had requested the FSRC's assistance in the investigation of Stanford Financial and SIBL. King had provided this confidential SEC letter to Stanford, and Stanford, together with Alvarado, helped King prepare a false and misleading response to the SEC.

105. At his meeting with King, King told Sjoblom about the letter he had received from the SEC and also told Sjoblom that the FSRC would refuse to produce any documents related to SIBL to the SEC. **In fact, Sjoblom's notes from the meeting reference King's comment that pursuant to Antiguan law, King would not permit SIBL's records to be turned over to the SEC unless and until he and the FSRC first made a finding that SIBL was engaged in fraud or**

crime. King also told Sjoblom that he might invite the SEC to Antigua, and might (with Stanford's permission) show the SEC the FSRC's exam reports on SIBL, but King would not provide the SEC with any documents showing how SIBL's portfolio was invested. Thus Sjoblom knew, as of that meeting with King, that King would never turn over SIBL's portfolio records to the SEC.

106. By this time in August 2005, Sjoblom understood Stanford Financial's business operations, including that it was operating a securities marketing and sales operation from Houston, Texas selling CDs from an offshore bank (which itself was managed from Houston and Memphis); that no one at SGC knew how the money was invested once it was at SIBL; that SIBL was purporting to hide behind Antiguan "privacy laws" to avoid showing anyone how it was investing the money; that SIBL's only regulator, the FSRC, would not turn over SIBL portfolio documents to the SEC absent its own finding of fraud or crime; that Stanford's sales force worldwide received above-market compensation for selling the SIBL CDs and even engaged in sales contests awarding prizes for selling the CDs; that the SEC suspected Stanford was operating a massive Ponzi scheme because of the rates of return it was offering on the CDs without disclosing how the money was really invested; and that Stanford was investing large amounts of money in Antiguan real estate development projects, illiquid investments which were entirely contrary to what was being disclosed to SIBL CD investors. Sjoblom, a former SEC enforcement lawyer with 20 years experience, at best knew that Stanford was running an unregulated investment company from his base in Houston, Texas in the guise of issuing CDs from an offshore bank in one of the most corrupt offshore fraud havens in the Caribbean. At worst, Sjoblom knew Stanford was running a Ponzi scheme in August 2005.

107. Instead of declining the engagement, Sjoblom eagerly agreed to help. After concluding his rapid and reckless “due diligence”, Sjoblom reported back to Talbert Navia and provided the green light that Chadbourne could represent Stanford. On August 23, 2005, Navia and Sjoblom, on behalf of Chadbourne, executed the engagement letter with Stanford whereby Chadbourne would represent Stanford Financial Group and its affiliates SGC and SIBL with respect to the SEC investigation, subject to receipt of a $50,000 retainer.

108. That same day, on August 23, 2005, Sjoblom called the SEC and told the SEC that it did not have jurisdiction over SIBL, and therefore SIBL would not be voluntarily producing any documents to the SEC.

109. Next Sjoblom traveled to Memphis on August 24, 2005 to understand how SIBL’s investments were managed. There he met again with Pendergest-Holt. His notes from that meeting detail how Pendergest-Holt explained to Sjoblom that Stanford Financial Group Company had services agreements with SIBL through which Stanford provided SIBL with accounting, legal, financial and treasury management services from the U.S. Pendergest-Holt reiterated to Sjoblom that, while Stanford could provide SIBL’s investment parameters to the SEC, it could not provide the SEC with its actual investment positions because that was proprietary information to Stanford. She compared it to Bank of America or Merrill Lynch, which might disclose their positions for their mutual funds (as required by law) but would not disclose to investors the loans that backed their CD products. She went on to tell Sjoblom how SIBL was not really a mutual fund because it issued a CD to the investors instead with a CD “guaranteed” rate of return such that SIBL had “taken away all the risk” that an investor would otherwise assume holding mutual fund shares. That was the only difference.

110. Pendergest-Holt also explained to Sjoblom how SIBL's investment positions were confidential under Antiguan law and could not be disclosed. She also told him that the FSRC, by law, could not share its bank examination reports with foreign regulators absent a finding of fraud or criminal activity. She also told him that as long as SIBL invested its CD holders' money within the parameters set by the Board, then there could be no fraud or criminal act. Sjoblom made a note to himself – a question on whether the Antiguan statute really provided for confidentiality of bank investment portfolio information. **Sjoblom thereafter recklessly never answered that question and never researched that issue and (as described below) was still questioning whether that was true in January and February 2009**.

111. Sjoblom immediately began searching for ways to justify SIBL's refusal to turn over information about its investments to the SEC. On August 25, 2005, he asked some other Chadbourne lawyers to advise him on whether trade secret law would justify SIBL's refusal to provide the investment information to the SEC. But both lawyers, Ken Weitzman and Richard Martinelli, responded that, even if SIBL's investment positions were trade secrets, they could always be turned over to the SEC pursuant to a Protective Order.

112. On August 29, 2005 the SEC sent a letter to SGC requesting production of all SIBL-related files. Sjoblom responded to the SEC via letter dated September 12, 2005 that, while Stanford would like to cooperate, Antiguan confidentiality laws prevented SGC or SIBL from producing SIBL's portfolio-related documents, and the SEC should instead request them from the FSRC (which Sjoblom already knew would be a useless gesture because he knew that King would reject the SEC's requests). Sjoblom also informed the SEC that he was taking the position that the SIBL

CDs did not qualify as securities, in part because of SIBL's "extensive insurance to protect against risk of loss", such that the SEC had no jurisdiction over SIBL.[6]

113. That same day, September 12, 2005, the SEC sent a letter to SGC President Jay Comeaux outlining SGC's violations of law. The SEC noted that SGC's Disclosure Statement for U.S. accredited investors was materially misleading as to the degree of risk associated with the CDs, while the SIBL marketing brochures sent to Stanford's foreign investors failed to disclose any risk at all and instead made the SIBL CDs sound as safe and secure as FDIC-insured CDs issued by U.S. banks. The SEC also alleged that since SGC lacked basic information regarding SIBL's portfolio, which it needed to determine the risk level associated with the CDs, SGC was violating the NASD's suitability rule by recommending the CDs to its investors. The SEC also alleged violations related to excessive referral fees generated by the sales of the CDs, and the failure to disclose these fees (and the sales contests) to investors.

114. On September 13, 2005 Sjoblom emailed a copy of one of SIBL's marketing brochures to fellow Chadbourne partner Peter Ingerman and asked him to examine it from a Reg. D standpoint to see if there were any problems with it. Ingerman responded that, with the SIBL brochure, "'they' appear to be promoting a brokerage or investment advisory service," and he asked Sjoblom "what securities are being sold…?" Ingerman went on to discuss what rules were applicable to investment advisers, *even offshore unregistered ones*. Sjoblom responded to Ingerman, informing him that "[t]hey" are selling CDs issued by SIBL, an offshore bank, and that "they" sold the CDs through "their" B/D affiliate in Houston. Sjoblom went on to inform Ingerman that "they" do not believe the CDs are securities.

6 Sjoblom already knew that Stanford's "extensive insurance" amounted to less than 5% of SIBL's CD liabilities.

115. Ingerman responded to Sjoblom via email 15 minutes later that "***I am not sure why they think these CDs are <u>not</u> securities***" (emphasis added). He went on to inform Sjoblom that, nevertheless, "they are not a US bank so they can rely on the exempted securities exceptions in Section 3 of the 1933 Act", and otherwise seemed compliant with Reg D.

116. Sjoblom then informed Alvarado that he had "sent your marketing brochure to our Reg D expert for his reaction." Sjoblom also alerted Alvarado that he was concerned about using the SIBL brochure while the SEC inquiry was pending. The next day he told Alvarado that, vis-a-vis the SEC, "*we need to fight back, hard*".

117. With the assistance of Chadbourne associate lawyers Dennis Dumas and Jennifer Arnold (as well as Stanford General Counsel Mauricio Alvarado and Chief of Staff Yolanda Suarez), Sjoblom began work on a massive response letter to the SEC, which went through several permutations before being finalized as a 36-page document and forwarded to the SEC on October 3, 2005, with a copy to the Dallas office of the NASD. The primary objective, as agreed between Sjoblom, Allen Stanford, Suarez and Alvarado and detailed in Sjoblom's notes, was to prevent the SEC investigation from going to a "formal order of investigation", "contain it at the Ft. Worth office" and "do it rapidly, before enforcement takes off."

118. Sjoblom centered the legal strategy for his response letter on his argument that the SEC did not have jurisdiction over SIBL's CD sales program because the CDs did not constitute securities under U.S. law, despite the fact that his fellow securities law partner at Chadbourne had told him that he didn't see how the CDs were *<u>not</u>* securities. Sjoblom also rejected the SEC's allegations of fraudulent marketing practices, and argued that Antiguan regulation of SIBL was comprehensive and, incredibly, that an investment in SIBL was actually safer than an investment in a U.S. bank. Sjoblom represented to the SEC that as a result of SIBL's Antiguan regulatory

environment, excess capital, and supplemental insurance coverage,[7] SIBL CD holders were "virtually guaranteed payment in full" in the event SIBL became insolvent.

119. Regarding SIBL's sales to foreign investors, Sjoblom also argued that such sales were likely outside the SEC's jurisdiction (despite the fact that Yolanda Suarez had told him that most foreign investors were referred to SIBL through SGC). He also defended SIBL's marketing brochures by repeating his assertion that SIBL CD holders were "virtually guaranteed" to receive the return of their principal, such that the brochures' comparison of SIBL CDs to US bank FDIC-insured CDs was proper.

120. In early drafts of the October 3, 2005 response letter, Sjoblom questioned whether he could represent to the SEC that SIBL had an "unblemished 21 year history", and that SIBL had never had any material regulatory violations (he eventually decided he could make that representation). He also made reference to the fact that Allen Stanford had headed up the development of the "comprehensive" banking regulatory system in Antigua, *but deleted that part from the final drafts*. Sjoblom also made a note to himself in an early draft as to whether or not the SEC had a copy of the (Stogniew) risk assessment report prepared for Lloyd's for insurance purposes, as it "could create a problem." Sjoblom also deleted from the final draft references in earlier drafts to his concerns about the 3% referral fee paid to SGC not being disclosed to foreign investors, as well as concerns about the non-disclosure of the Stanford-wide CD sales contests. Sjoblom also included in the final version sent to the SEC a misrepresentation about the nature of disclosures made in the SIBL brochure that he himself had pointed out to Mauricio Alvarado, who nevertheless insisted it be included, so Sjoblom included it.

7 In early drafts, Sjoblom also highlighted the fact that SIBL had insurance coverage "including the protection of SIBL depositors," which was "similar in substance to FDIC insurance."

121. Thereafter, things went quiet on the SEC front for a while. In the meantime, Stanford began to forward more business to Sjoblom and Chadbourne, including a December 2005 issue involving an FA recruiter who had sent an email to Stanford. The recruiter reported to Stanford that a potential FA recruit had responded negatively to the idea of selling SIBL CDs, and according to the recruiter, the "[FA recruit] said "I wouldn't want to go to jail.'" Sjoblom wrote on the email that such statements were "hearsay."

122. In January 2006, the NASD moved forward with its own Stanford investigation by sending a letter to SGC raising concerns about the SIBL sales brochures, the "accredited investor" disclosures, and SGC's due diligence on SIBL for suitability of investment purposes. Stanford's Alvarado once again requested Sjoblom and Chadbourne's assistance in responding to the NASD. Sjoblom helped prepare the NASD response letter, which echoed many of the same arguments he made in response to the SEC. In a January 31, 2006 email to Alvarado, Sjoblom also advised Alvarado that the NASD might want to see SIBL's portfolio-related documents, which he reminded Alvarado were confidential.

123. On February 3, 2006, Stanford compliance officer Lena Stinson emailed Sjoblom for his advice on a new SIBL 20th year marketing brochure that Allen Stanford wanted to use. Sjoblom cautioned that they needed to avoid trouble with the SEC since they were in the midst of an SEC investigation. He also informed Stinson that he wanted one of his Chadbourne securities partners to look at the brochure as well.

124. Then on February 16, 2006, after apparently conferring with "other securities lawyers at Chadbourne," Sjoblom responded to Stinson with his comments on the use of the new SIBL brochure. He advised (for the first time) that if the CDs ended up being securities, then SIBL could no longer rely on Reg. D "for use of general solicitation materials" (which is apparently how the

"other securities lawyers at Chadbourne" viewed the SIBL brochure), and since SIBL did not have any caps on sales of the CDs, this "general solicitation" would allow the SEC to "undoubtedly succeed in any enforcement case to establish liability" for sale of unregistered securities. Sjoblom (or the "other securities lawyers at Chadbourne") further advised, also for the first time, that – regardless of whether the CDs were securities or not — SGC might have issues with respect to the suitability of its clients' investments in the CDs. Finally, Sjoblom advised that "***because Allen Stanford owns and/or controls all of the entities involved in the sale of the CDs, it will be difficult to argue that SIBL (the issuer of the brochure) must be viewed and treated as separate and distinct from SGC.***"[8] Sjoblom concluded the email by advising Stinson that if Stanford used this brochure as solicitation material, it would likely expose Stanford to more "battles on a larger and wider scale," which was risky given that Stanford was currently facing a preliminary SEC investigation as well as NASD deficiency letters.

125. Allen Stanford then stepped in directly and, by email dated February 16, 2006, provided comments on Sjoblom's response, basically asking for ways to "get around" the compliance issues. In addressing the suitability, due-diligence problem, Stanford wrote that he wanted Stinson to "get down to Antigua and cover our rears with tons of due diligence paperwork" – i.e., "paper the files." Sjoblom's response to Stanford's comments indicates his knowledge that SIBL was already engaging in general solicitation in violation of Reg. D and, as a result, SIBL was selling unregistered securities and could be liable for rescission of all CD sales. Furthermore he now heard directly from Allen Stanford that the solution to the suitability problem was to just "paper the files."

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8 Of course, these statements, most likely drafted by someone other than Sjoblom at Chadbourne, are entirely contradictory to what Sjoblom had been representing to the SEC.

126. Then on February 24, 2006, Chadbourne received an audit response request letter from BDO Seidman concerning SGC's 2005 audit. That same day Sjoblom wrote to Alvarado and Suarez that he had received a "strange phone call" from BDO inquiring about Sjoblom's October 2005 response memorandum to the SEC. Sjoblom told Alvarado that he had asked BDO where they got the letter. Sjoblom also informed Alvarado that he had advised BDO that the SEC inquiry was mostly related to "amending compliance procedures," and that it was just part of a routine examination. At Alvarado's request, and so that Stanford's CD business would not be interrupted, Chadbourne went on to create and submit Chadbourne's audit response letter to BDO, and omitted in that letter any reference to the ongoing SEC investigation of SGC.

127. In March 2006, Chadbourne associate Jacqueline Perrell prepared a memo for Sjoblom concluding that it was fine for Stanford to use the SIBL 20-year anniversary marketing brochure because it did not "constitute an offer to sell securities," even though the same Perrell Memo, just one paragraph earlier, described the brochure's purpose as "to solicit investors in connection with" the CD offering.

128. Also in March 2006, SGC received another letter from the NASD, which was "continuing its inquiry" into SGC's offering of the SIBL CDs. Amongst other issues, the NASD requested evidence of SGC's due diligence on SIBL. Sjoblom and Chadbourne helped SGC respond to the NASD. Later that month, Chadbourne associate Perrell prepared another memo to Sjoblom advising that Stanford could continue to run the CD sales contests between the FAs. This memo was forwarded to Stanford Director of Global Compliance, Lena Stinson, on June 13, 2006.

129. In the meantime, Chadbourne continued to solicit more business from Stanford, with Talbert Navia promoting the firm's aviation experience to Alvarado, premised on Navia's knowledge of Stanford's (eventually failed) Caribbean airline business.

130. In July 2006, Sjoblom announced his departure from Chadbourne to join the Washington, D.C. office of Proskauer Rose. As part of his departure, Sjoblom prepared a memo for Navia and fellow Chadbourne partner Scott Balber to provide a status update on the Stanford matter. He wrote that he had worked on two matters for Stanford: the SEC investigation and responses to regulatory inquiries. He described how he had sent the SEC his massive October 2005 response letter, and how that letter had "set them 'back'" such that they were "reconsidering" their investigation of SIBL, and instead had referred the matter to the NASD for minor regulatory issues. He advised that Jackie Perrell had researched the sales contests issue, but Sjoblom nevertheless advised against Stanford conducting such contests. He concluded the memo by stating that "[e]veryone seems to prefer the 'let sleeping dogs lie' approach."

131. On July 30, 2006, Leroy King transmitted to Alvarado, in his capacity as Stanford Financial's General Counsel, a letter dated July 11, 2006 from the Director of the Bank Supervision Department at the Eastern Caribbean Central Bank ("ECCB") to the FSRC in Antigua. The ECCB letter concerned, inter alia, the affiliated relationship of SIBL to the Bank of Antigua. On August 1, 2006, Alvarado drafted King's purported response letter to the ECCB, which was calculated to mislead the ECCB as to the financial bona fides of SIBL and to prevent legitimate scrutiny of SIBL by the ECCB. King sent a draft of the response letter back to Alvarado via facsimile transmission with the following handwritten words: "Please do not bill me (laugh), Thanks a million, Lee." That same day, Alvarado sent an email to Allen Stanford, telling Stanford that "I am attaching a copy of the letter that I have drafted for Leroy King. He is very happy with it."

O. Proskauer Participates in the Stanford Ponzi Scheme

132. Sjoblom and Jackie Perrell both left Chadbourne in August 2006 and joined Defendant Proskauer. Thereafter, on September 6, 2006, Sjoblom received a call from the SEC's

Jennifer Brandt demanding copies of Stanford's current marketing brochures and disclosure statements for the SIBL CDs. Brandt informed Sjoblom that the SEC's investigation of Stanford was going to the next level of a Formal Order of Investigation and that it would be a fraud investigation. She also informed Sjoblom that the SEC had been trying to get information about SIBL from the FSRC's Leroy King, but King was not cooperating. Sjoblom immediately notified Alvarado, and told him that – in response to Brandt's statements regarding a fraud investigation of Stanford – that he, Sjoblom, had told Brandt that he had "personally gone through all operations" of Stanford and "there was no fraud here."

133. On that same day, September 6, 2006, Stanford formally retained Proskauer to serve as its new regulatory counsel. The client listed in the engagement letter is "Stanford Financial Group and its affiliated entities". The engagement letter states that Sjoblom's hourly rate would be discounted to $650/hour, but that the rate would increase "should the matter go to litigation."

134. On September 11, 2006, Sjoblom's handwritten notes indicate he had a teleconference with Allen Stanford, wherein Stanford informed him that Leroy King had told Stanford that he had received phone calls from a Mike Moore at the SEC, who had been calling Leroy King and making wild accusations about Stanford, including that it was a fraudulent pyramid scheme. Stanford told Sjoblom that King had called the SEC and spoken to some staff members (among them Elizabeth Jacobs), who informed him that the SEC had been interviewing some current or former Stanford FAs. Stanford told Sjoblom that King had informed him (Stanford) that King told the SEC to put all of their requests in writing. Sjoblom's notes state that "just like before it is former reps (who got fired) and not depositors who are complaining."

135. On September 18, 2006, Sjoblom had another teleconference with the SEC staff, including Mike Moore and Elizabeth Jacobs from the SEC's Office of International Affairs ("OIA").

During that teleconference, the SEC staff told Sjoblom flat out that it suspected Stanford was a fraud and Ponzi scheme. **The SEC also told Sjoblom that former Stanford FAs had told them that they suspected that SIBL investor money was being used to underwrite Allen Stanford's personal real estate projects in Antigua and the Caribbean**. Sjoblom told the SEC that he had "heard through the grapevine" that the SEC had not provided the FSRC with an *appropriate* request for SIBL-related documents; that the SEC should "go to Antigua" to review the SIBL examination reports issued by the FSRC; that he (Sjoblom) had spent 15 years investigating fraud for the SEC and was "well-equipped" to recognize the "hallmarks of fraud"; that he (Sjoblom) found SIBL to be credible in all their business dealings; and that, based upon his review of the situation and personal visit to SIB, Sjoblom found SIBL to be an "incredible institution." Of course the "grape vine" that Sjoblom referred to was the insider, confidential information he learned from Allen Stanford about Stanford's conversations with Leroy King, SIBL's purported regulator.

136. During that September 18, 2006 teleconference, the SEC again requested that SIBL provide, on a voluntary basis, documents evidencing how it invested its depositors' money. The SEC also told Sjoblom that it had made a similar request to the FSRC but the FSRC had told the SEC that SIBL had not provided its approval to produce the documents. Sjoblom responded that the SEC did not have jurisdiction over SIBL, and that the SEC would have to get any information about SIBL directly from its Antiguan regulator – the FSRC.

137. On September 19, 2006, Sjoblom began preparing a letter to the SEC's OIA in which he pointed out that the SEC had yet to make a formal written request to the FSRC for the documents evidencing the composition of the SIBL portfolio, and that the SEC had instead "resorted to a telephone campaign" of wild accusations. He also underlined how the FSRC had found no fraud or

improprieties in SIBL's operations, and that the SEC should "not be guided" by statements from "former disgruntled" Stanford FAs.

138. The final version of this letter was edited by Alvarado and Allen Stanford himself, with whom Sjoblom was, by now, having direct telephone and email communications. On September 21, 2006, Sjoblom informed Alvarado that he had invited Allen Stanford to the Virginia Gold Cup, that he was trying to get the Venezuelan ambassador to attend as well, and that perhaps he (Sjoblom) could help Stanford with business development in Venezuela.[9] He also invited Stanford, Alvarado and Suarez to an "open house" that Proskauer would be hosting at its Washington, D.C. office. Later that month Sjoblom arranged for Proskauer to put on a formal presentation of its securities law-related capabilities for Stanford.

139. On September 25, 2006, the SEC sent a confidential letter to the FSRC (King) that formally requested records and information regarding SIBL's CD investment portfolio. King immediately provided this letter to Stanford and Alvarado. Alvarado, in turn, consulted with Sjoblom regarding the contents of this new confidential SEC letter. Then on September 29, 2011, the SEC provided a copy of the request to Sjoblom, and in its cover letter asked Sjoblom for "your client's cooperation in making [SIBL's] documents available for review." The SEC also referenced a planned visit to Antigua on October 11, 2006.

140. On October 2, 2006 Sjoblom had a teleconference with Alvarado, in which they agreed that the SEC would have to get its requested documents from the FSRC, and that maybe they could "throw them [the SEC] a few crumbs" by providing a few documents.

9 This was not the last time Sjoblom offered to help Stanford with business ventures. On March 22, 2007, he wrote to Alvarado that he had a billionaire client that might be interested in global investment opportunities and asked Alvarado to inquire whether Stanford had any interest in such an investor for his "planned business **or real estate ventures**."

P. Stanford Hires Spencer Barasch

141. Allen Stanford decided he needed more "insider" assistance to help with the SEC investigation. On September 29, 2006, Allen Stanford emailed Alvarado and James Davis, SIBL's CFO, that he wanted to get Spencer Barasch, the former Director of Enforcement for the SEC's Ft. Worth office, "on board asap." Alvarado responded to Stanford almost immediately:

> I have already spoken to Spencer Barasch. I have scheduled a meeting for next Tuesday in Miami in the afternoon. For your information, Spencer is a partner at Andrews Kurth and was previously the Associate Director in the SEC's Fort Worth office where he headed up the agency's enforcement program in the Southwest.

Also on September 29, 2006, Barasch emailed Alvarado back:

> Thanks for the call this morning - I look forward to the opportunity to be of service to Stanford going forward.
>
> I will await instructions about where and when to meet in Miami on [T]uesday . . . .

142. Thereafter, on October 2, 2006, Alvarado notified Allen Stanford and Davis, "Fyi. I will be meeting with Spencer Barasch, former SEC head [sic] of enforcement tomorrow at 3:00 PM at our offices in Miami (21st floor conference room)."

143. On October 3, 2006, Barasch met with Alvarado in Stanford's Miami office. During that meeting, Alvarado and Barasch together called Sjoblom to discuss the status of the SEC investigation. Alvarado disclosed that the FSRC had no memorandum of agreement or understanding with the SEC, and that the FSRC would not cooperate with the SEC without one. Sjoblom informed Alvarado and Barasch that he had called the SEC and been told that FSRC had told SEC that ***SIBL*** was the cause of any delays in producing the information the SEC had requested because SIBL had told the FSRC it would take SIBL six to eight weeks to gather the kind of documents the SEC wanted. The three (Alvarado, Sjoblom and Barasch) also discussed the NASD

inquiry and Alvarado informed the two former SEC lawyers that Stanford had just hired a former NASD official, Bernard Young, as Chief Compliance Officer so that he could deal with the NASD. The three then discussed the overall strategy for Stanford to follow – which was for the SEC to deal with the FSRC and try and get the SIBL documents.

144. On October 4, 2006, the day after the meeting in Miami, Barasch followed up with Alvarado by email as follows:

> I enjoyed finally meeting you yesterday. Some follow-up thoughts/questions?
>
> (1) Any more news from the SEC or from Antigua? Did you actually make the trip to Antigua this morning?
>
> (2) How is the progress on the response to the NASD?

Alvarado responded to Barasch's email, stating:

> Likewise, I am very glad that we finally met. Responding to your questions, we have not heard anything else from the SEC today. We are nonetheless, working on the draft response to the NASD . . . . As soon as I get back to Houston [from Antigua], I will give you a call to discuss further, and plan a strategy to follow.
>
> I am glad that you are now part of our team. I look forward to our working together.

145. On October 12, 2006, Barasch had a "[t]elephone conference with Mauricio Alvarado regarding status of SEC and NASD matters." Also on October 12, 2006, Alvarado emailed Barasch and Sjoblom regarding the "NASD CD Inquiry":

> Spence/Tom,
>
> Per our conversation, I am attaching for your review our proposed response to the latest NASD letter dated September 27, 2006. Please review it and send me your comments, if any, by the end of the day tomorrow . . . .

Barasch responded to Alvarado's request for comments the next day, October 13, 2006, stating:

> As much as I would like to offer you some brilliant suggestions, and show off my wisdom, I have nothing of substance to add. I think the content of the response, and its tone, are excellent.
>
> I suspect that the NASD will just go through the motions to satisfy the SEC.

146. Alvarado forwarded Barasch's comments to Allen Stanford on October 13, 2006, with the introduction, "FYI. This is the feedback from the former SEC person in Fort Worth in relation to our proposed draft letter to the NASD."

Q. The SEC Moves Forward with a Formal Order of Investigation

147. In the meantime, the SEC continued to seek (to no avail) Stanford's cooperation with the SIBL document requests. On October 10, 2006 the SEC again called Sjoblom and informed him that it still had not received any documents evidencing SIBL's portfolio or how SIBL was investing the depositors' money. The SEC demanded confirmation from SIBL that it would produce to the FSRC the documents disclosing such information. The SEC also reiterated that it had been told by the FSRC that SIBL had represented to the FSRC that it would take SIBL six to eight weeks to produce such information. Sjoblom's notes from the conversation indicate that "SEC wants confirmation from us that we will produce records so that the SEC can tell the FSRC that SIBL will do so." In parentheses following this note, Sjoblom revealed his knowledge of Stanford's shell-game strategy of obstruction, noting: "***this is clearly a ploy by the SEC to get the FSRC to produce the banking documents because SIBL says that it is ok to do so. NO!!***" (emphasis added).

148. Next, Sjoblom had to scramble to correct what his client construed as his being too cooperative with the SEC. On October 10, 2006, Sjoblom had a teleconference with the SEC, during which he reiterated Stanford's position about the SEC's lack of jurisdiction and that Stanford was "prohibited under Antiguan law from releasing" certain bank records. Later that day, the SEC's Jennifer Brandt sent Sjoblom a letter confirming their teleconference, in which she noted that the

FSRC had documents in its possession regarding SIBL that were responsive to the SEC's requests, and that Sjoblom had represented during the phone call that SIBL had no objection to the FSRC's production of such documents to the SEC. Sjoblom then emailed Alvarado and attached the letter, but pointed out that the letter "misrepresents what I said", because he had told the SEC that it had to get whatever documents it could from the FSRC but that Stanford could not provide anything that Antiguan law precluded it from producing.

149. Sjoblom then prepared a response letter, which Alvarado and Allen Stanford himself commented on. In that response letter, Sjoblom told the SEC that, *inter alia*, "it would be inappropriate for me to authorize you to have access to the FSRC's files." Then Sjoblom proceeded to bizarrely speak for the FSRC by noting that "[w]hile I cannot confirm what the FSRC desires from the SEC" in the form of a memorandum of understanding, "it is my understanding that the FSRC is insistent that appropriate bi-lateral government protocols and proper procedures be followed in this case."

150. Frustrated by Stanford's and Sjoblom's constant shell game, the SEC issued its Formal Order of Investigation of Stanford (Case No. FW-2973-A) (the "Order") on October 26, 2006. Sjoblom discovered the Order a month later, and on November 21, 2006, he sent a letter to the SEC formally requesting a copy of the Order. Sjoblom copied Spencer Barasch on that letter.

151. In its Order, the SEC for the first time made the allegation that Stanford might be violating Section 7(d) of the Investment Company Act by selling what amounted to investment company securities (the SIBL CDs) without registering SIBL as an investment company. Sjoblom informed Alvarado that he thought the investment company allegation was a "stretch" because "banks are exempt from the definition of investment companies."

152. Pursuant to the Order, the SEC began issuing the first of several subpoenas to SGC.

R. Barasch's Representation of Stanford Implicates SEC Ethics Rules

153. That same day, November 21, 2006, Sjoblom sent Alvarado an email with the subject "Spencer Barasch", which stated:

> . . . [D]o you have Spencer's phone number and name of his law firm. I am sending the letter to the SEC requesting formal order. So that I get the formal order, I need to also tell them that I will accept service, but will not be back until late next week. So, don't send subpoenas until then.

Approximately one hour later, at 12:20 p.m., Alvarado sent Sjoblom the requested contact information for Barasch.

154. An email from Barasch to Alvarado later that day suggests that Barasch and Sjoblom may have discussed the SEC investigation after Sjoblom received Barasch's contact information. In that email, Barasch stated:

> Would you ask Tom [Sjoblom] if he recalls who the other SEC person was that called him yesterday? [May be somebody I know well and can call for info.]

155. Alvarado responded a few minutes later, "He told me that the call was from . . . the new Chief." Barasch replied, "'New chief' could mean a number of people -- if he has the name, it would help. [I]f not, no big deal." Alvarado then asked Sjoblom, "What are the names of the SEC folks who called you yesterday?" Alvarado emailed Barasch, "He did not get the name."

156. On or about November 27, 2006, Barasch, in representing Stanford, spoke with SEC Enforcement lawyer Jeff Cohen about Stanford. Cohen asked him during the conversation, "Spence, can you work on this?" According to Barasch, Cohen told him, " . . . I'm not sure you're able to work on this[,]" and Barasch replied, "I'm already talking to Rick Connor about it."

157. On November 27, 2006, Barasch belatedly sought permission from the SEC's Ethics Office to represent Stanford. Sometime after that, Connor was reminded by other SEC staff about

Barasch's prior involvement in the Stanford matter, so Connor called Barasch and told him that he could not represent Stanford on the SEC investigation. Barasch then called Alvarado and relayed that decision.

158. By the time Barasch contacted Connor on November 27, 2006, Barasch had already met with Stanford's General Counsel, participated in telephone conferences with him and reviewed pertinent documentation. Sjoblom's billing records also indicate that he was continuing to discuss the SEC investigation with Barasch as of December 6, 2006. Barasch was investigated for violations of government ethics rules.

S. Sjoblom Advises Stanford to Violate SEC Subpoenas

159. Once SGC was hit with the SEC subpoenas in November or December 2006, Sjoblom began orchestrating a massive delay and obfuscation game. At first, Sjoblom told the SEC that SGC would begin a "rolling" document production in December 2006 that would continue for a maximum of 60 days, after which he would produce various SGC employees to testify. One of the first group of files that Sjoblom ordered not to be produced were the files of SIBL's representative office, SFIS, which despite sharing offices and personnel with SGC in Houston and Miami, Sjoblom characterized as having "nothing to do with SGC." But as Sjoblom had learned from his representation of Stanford Financial, every tentacle of the organization was involved in selling SIBL CDs, including the Stanford Trust Company in Louisiana, which Sjoblom discovered was peddling SIBL CDs to the IRA accounts of SGC's U.S. investors.

160. On January 23 and 24, 2007, Sjoblom traveled to Houston to meet with Stanford personnel, including Lena Stinson, Bernie Young and Rebecca Hamric, to review documents and coordinate Stanford's document production to the SEC. During those Houston meetings Sjoblom learned that over $230 million of SIBL's portfolio was invested in private equity holdings managed

by SGC pursuant to a 2004 Financial Consulting and Advisory Services Agreement ("Private Equity Agreement") between SGC and SIBL, which illiquid investments were not disclosed to SIBL investors. **Thus at that time in January 2007 Sjoblom knew that Stanford was misrepresenting the liquid nature of the SIBL portfolio to investors**.

161. During the meetings on January 23, 2007, Bernie Young pulled a copy of the Private Equity Agreement between SGC and SIBL and showed it to Sjoblom as part of the production responsive to the SEC's Subpoena. But Sjoblom advised Young, Stinson and Hamric ***not*** to produce that contract, and instead Young placed it in a folder marked "don't produce per Tom". In a copy of the Private Equity Agreement separately maintained by Sjoblom, he wrote on the last page "this shows we know of SIBL's portfolio", but then he scratched out the "shows we" and wrote in above it "does not" (emphasis in original).

162. Sjoblom advised Stanford to withhold the Private Equity Agreement even though it was responsive to the SEC Subpoena because he knew that if the SEC found out that SGC managed part of SIBL's portfolio, then he could no longer object to the SEC's efforts to link SGC and SIBL together and obtain access to all of SIBL's portfolio holdings. If the SEC had received that contract in January 2007, then the SEC could have taken action sooner to shut down Stanford based on this evidence of Stanford's misrepresentations regarding the liquidity of the SIBL portfolio, of which Sjoblom was now aware. Instead Stanford's Ponzi scheme was allowed to continue to grow for another two years, during which time roughly $2 billion of CDs were sold to unsuspecting investors.

163. Under Sarbanes-Oxley, Sjoblom had a duty to report this matter up to the Chief Legal Officer, Alvarado, and from there to the SGC's Board of Directors, and if unavailing, to withdraw from representing Stanford altogether. He did none of that.

164. Sjoblom and the others were nonetheless apparently becoming nervous, because that same day (January 23, 2007) Sjoblom asked his associate Jonathan Hanks to send him (via email to Rebecca Hamric) a copy of a memo he had previously prepared for another client on "obstruction of justice."

165. In the meantime, Proskauer had received another audit confirmation letter from BDO Seidman for its 2006 ("as of" December 31, 2006) audit of SGC. Of course, Sjoblom knew that the SEC had launched its formal investigation on October 26, 2006. Sjoblom once again prepared the audit response letter for Proskauer. Again at Alvarado's request, and so that Stanford's business would not be interrupted or affected, the audit response letter that Proskauer sent to BDO contained no mention of the SEC's formal investigation of SGC.

166. As a result of that glaring omission, Sjoblom received a February 28, 2007 email from Carlos Ancira, the BDO audit partner on the SGC audit, which stated:

> Tom, I am the audit engagement partner of Stanford Group Company (SGC). I am aware of the SEC investigation which recently was brought to my attention by Mr. AJ Rincon and Mr. Bernerd Young. When we sent out the legal representation letters, we were not aware of this matter. **Due to the sensitivity of the situation, the only persons knowledgeable about this matter in our audit engagement team are myself and my senior manager, Marie O'Neil**.
>
> **I understand the reason for your legal letter response not addressing this matter.** However, I would like to have a conversation with you about this. As you know, SGC needs to file its audit report to the NASD today and I would need to speak with you before I approve release of our opinion in the audit report."

167. Sjoblom's billing entry for February 28, 2007 reveals that he held three separate teleconferences with BDO that day and also reviewed the ABA standards. That same day, Sjoblom's associate Jackie Perrell advised him that the SEC had called her and wanted to start scheduling the testimony of the four SGC officers they had subpoenaed, and that the SEC also intended to take Allen Stanford's testimony via subpoena. Sjoblom called Jason Rose at the SEC

and told him that Stanford would not be available to testify until June 2007. Sjoblom also pushed back the other SGC officers' testimony until May. The SEC finally subpoenaed Allen Stanford on June 5, 2007 to produce all his SIBL-related emails by June 29 and to testify in September 2007. The SEC also issued new subpoenas for Danny Bogar, A.J. Rincon, Eddie Rollins and Jay Comeaux for their SIBL-related emails and to testify in August and September 2007.

168. While Sjoblom and Stanford engineered delay after delay in producing the requested emails, including "unforeseen" technical problems that caused further delays, Proskauer associate Jackie Perrell began working on a legal memorandum addressing the SEC's new allegation that Stanford was violating Section 7(d) of the Investment Company Act. On August 13, 2007, Perrell provided her memo to Sjoblom, in which she concluded that SIBL was exempt from the Investment Company Act because it was a foreign bank incorporated in Antigua and was "engaged substantially in commercial banking activity." Of course, Sjoblom, Perrell and Proskauer knew that SIBL was not engaged in commercial banking activity because SIBL did not even make loans and marketed itself to its depositors via its sales brochures as having "no credit risk" due to the fact that it made no loans.

169. During this period of document production from June through August 2007, Sjoblom became aware of more questionable activities by his client Stanford. During another trip to Houston for a week of meetings at SGC from August 13 through August 17, 2007, Sjoblom and Perrell became aware that Stanford sent out a weekly Top Producers Club "scorecard", called the "Hustle Sheet" for SIBL CD sales that listed the CD sales for the different Stanford sales teams, ***and that the only product marketed and sold by the SFIS offices in Miami, Houston and San Antonio was the SIBL CD***. Sjoblom also learned that SGC regularly conducted CD sales seminars to market the SIBL CDs to investors. He also learned that the list of "disgruntled" former Stanford employees

alleging (like the SEC was alleging) that Stanford was a Ponzi scheme was growing, and now included Charles Hazlett, Mark Grensch and Ron Rossi.[10] **Sjoblom also discovered that the level of private insurance that allegedly "protected" the SIBL depositors was woefully inadequate, amounting to less than $100 million, or less than 2% of the total amount of outstanding CD liabilities**. Finally Sjoblom also found out that a Stanford Mexico employee had been "intercepted" by Mexican authorities illegally taking checks out of Mexico on private airplanes for investment in the SIBL CDs. And yet Sjoblom still did not report up the chain per Sarbanes Oxley and still did not withdraw.

170. In February 2008, BDO's annual audit of SGC (year ending 2007) came up again, and BDO sent its audit letter to Proskauer. This time Sjoblom asked Perrell to prepare the response. Despite the fact that SGC was under SEC Formal Investigation and was responding to subpoenas for documents and testimony regarding allegations of a fraud or Ponzi scheme, once again Proskauer's audit response letter, this time signed by Proskauer partner Richard Rowe, omitted any reference to the SEC investigation, again at the request of Stanford's Alvarado.

171. In July 2008, former SGC FAs Charlie Rawl and Mark Tidwell, who had left SGC and filed a lawsuit accusing Stanford of running a massive Ponzi scheme, were subpoenaed by the SEC to provide testimony. Tidwell and Rawl also alleged in their lawsuit that SGC had purged files and destroyed documents related to the SEC investigation.[11] Upon being told by Alvarado of this

10 Another SGC employee, Charles Satterfield, was terminated and thereafter alleged in a 2007 FINRA arbitration suit that Stanford executives held the SEC in "utter contempt" and refused to file required documents, hid information from the SEC and destroyed files. Satterfield alleged that he received more training from Stanford Financial in what not to discuss in archived company emails (thus circumventing the intent of records retention requirements) than he was given in how to comply with laws.

11 As alleged in their lawsuit against SGC, the new policies adopted by SGC in response to the ongoing SEC investigation included ordering the removal or destruction of information contained in client or company files and purging electronic data from its computers. Rawl and Tidwell alleged that they had become concerned when, in the summer of 2006, all of the assistants to the Stanford FAs were told to remove any information that wasn't on SGC letterhead, including notes and inter-office email, from their client files, just ahead of an SEC inspection. Then in March 2007, Rawl and Tidwell were called into a meeting with management, in which they were told to stop

matter, Sjoblom immediately recognized that he had interviewed Tidwell back in June 2005 as part of his initial "due diligence" on Stanford. He told Alvarado that, as such, Tidwell was "bound by confidentiality" and that Stanford could use that against him in a motion to dismiss.

172. In the meantime, the NASD's (now FINRA's) separate investigation of Stanford's CD program also continued apace, with FINRA informing SGC on August 29, 2008 that SGC's prior January 2008 responses to requests for information about SIBL were incomplete "given the direct affiliation between SIBL and SGC as well as both entities' common ownership." FINRA reiterated its demand for information evidencing SIBL's asset portfolio and a list of the asset managers that managed the portfolio. SGC's Bernie Young (with the assistance of Alvarado and Rebecca Hamric) replied to FINRA via letter dated September 24, 2008 and told FINRA that SGC stood by its original responses, but included copies of some additional due diligence materials that SGC had on SIBL. As support for this position, Hamric prepared a legal memorandum concluding that SGC could not be required to produce SIBL documents just because both companies were ultimately owned by the same person, Allen Stanford.

enumerating any concerns they had about SIBL in intercompany emails because the emails could fall into the hands of the SEC. Rawl and Tidwell were terminated by SGC before they could resign and were then sued, in what had become a common practice at Stanford for anyone who questioned what was really going on.

T. The Federal Reserve Board Launches its Own Stanford Investigation

173. The Stanford dam began to break even more in September 2008 when the Federal Reserve Board ("FRB") served a subpoena on the Miami office of SFIS. The FRB had opened up its own investigation of SIBL, with its primary focus on whether SIBL was operating unregistered bank representative offices via SFIS in Miami, Houston, and San Antonio. The FRB subpoena to SFIS requested documents relating to, *inter alia*, the relationship between SFIS and Stanford Trust Company Ltd (Antigua) ("STCL"), as well as documents related to marketing and sales by SFIS of the SIBL CDs and all communications related to SIBL CDs between SFIS and other Stanford Financial-related entities. The FRB also issued a similar subpoena directly to Allen Stanford and the Stanford Trust Company ("STC") in Baton Rouge, Louisiana.

174. On September 30, 2008, Sjoblom had a teleconference with Alvarado about the FRB subpoenas. Alvarado (in typical Stanford fashion) asked Sjoblom whether Proskauer "knew anyone" over at the FRB, and asked whether the FRB even had jurisdiction over SFIS. The next day, October 1, 2008, Sjoblom called the issuing lawyer at FRB, Lisa Villareal, to inquire as to the basis for the FRB's jurisdiction. Villareal told Sjoblom that the FRB was investigating whether SFIS was in reality operating as an unregistered branch office of SIBL in the United States, and that as such the FRB had jurisdiction under the International Banking Act, 12 USC 3101 and Reg. K. Villareal also told Sjoblom that the FRB was concerned that SFIS had strayed way beyond the authorization it had been granted by the State of Florida and that, irrespective of what Florida had authorized, the FRB had never given approval for SFIS to act as a representative office for SIBL in the U.S.

175. Sjoblom then had Perrell research the issue of the FRB's jurisdiction over STC and SFIS. By memo dated October 1, 2008, Perrell concluded that the FRB did have jurisdiction over

those two entities because they were both affiliates of SIBL. Indeed, Perrell concluded that SFIS was a representative office of SIBL. But then Sjoblom changed the memo. The draft copy Sjoblom sent to Alvarado the next day argued that STC could quash the FRB subpoena because it was not performing any banking functions. He also argued that since SFIS was technically a representative office for STCL, and not SIBL, Stanford could argue that SFIS was not subject to the FRB's jurisdiction (despite the fact that Sjoblom at this point knew that the only function of SFIS was to market and sell the SIBL CDs).

176. Sjoblom, Perrell, Alvarado and Stinson thereafter met with the FRB on October 15, 2008, during which meeting Sjoblom (falsely) represented to the FRB that Allen Stanford was not involved in the day-to-day operations of the various Stanford entities and requested that he be allowed to submit a verified statement to that effect. Sjoblom also convinced the FRB that Stanford needed more time to produce the voluminous records the FRB had requested. The FRB acceded to these requests and agreed that Stanford's document production would start on November 17, 2008 and continue on a rolling basis through February 2009.

177. On October 19, 2008 Perrell prepared a legal memo for Sjoblom, this one addressing the remedies available to the FRB if SFIS did qualify as an unregistered bank representative office of SIBL in the U.S. Perrell noted that SFIS could be liable for civil damages of up to $25,000 per day as well as having its principals face possible prison time of up to five years and criminal fines of up to $1 million per day. On October 30, 2008 Perrell prepared yet another legal memo addressing the types of activities that comprised "core" banking functions versus "back office" functions. Perrell concluded that virtually all of SIBL's back office functions, including legal, HR, IT and accounting, were being carried out by Stanford Financial Group Company in Houston. Of course, Sjoblom had known that since 2005.

178. On December 12, 2008, Sjoblom received further notice that Stanford was a fraud. In a discussion with Stanford Assistant General Counsel Larry Fontana, Sjoblom learned that SGC's clearing firm, Pershing, had informed Stanford that it would no longer be involved in wiring money for SGC clients to buy the SIBL CDs. Fontana informed Sjoblom that Stanford was looking at an alternative that would allow SGC to keep selling the CDs anyway, by having Pershing wire the client's funds to an intermediary escrow account SGC established at the Bank of Houston. Fontana asked Sjoblom to advise Stanford as to the securities regulatory implications of such a move. And still Sjoblom did not report up the chain or resign per Sarbanes Oxley.

179. A few days later, on December 16, 2008, the FRB sent a letter to Sjoblom informing him that it considered Stanford's document production to be deficient because Stanford had only produced documents located at its offices in the U.S. and had failed to produce documents from SIBL, despite the FRB's subpoena on SIBL's Chairman Allen Stanford. The FRB demanded that Stanford (via Sjoblom) produce the SIBL documents. Sjoblom immediately informed Alvarado of the letter.

180. Sjoblom then prepared the response to the FRB, eventually transmitted on December 23, 2008, in which he re-asserted that the FRB did not have jurisdiction to demand the documents it had requested. As part of his general response to the FRB, Sjoblom then engaged in a war of words with Stanford in-house counsel Hamric over whether it was proper to say that Allen Stanford "generally oversees operations" of the Stanford companies, as Hamric had proposed, or whether Allen Stanford just "from time to time receives and reviews reports from independent financial services companies" as Sjoblom preferred (despite his knowledge that Allen Stanford did much more than that). When Hamric responded that the word choice was just a question of "semantics" and that they had to put somebody down as having "overall responsibility" for the

companies or else it "will look like no one is in charge," Sjoblom countered aggressively that it was ***not*** just semantics and that "we are dealing with critical legal distinctions" with "broad implications."

181. On December 23, 2008, Sjoblom had another teleconference with the SEC (Kevin Edmundson) in the wake of the Madoff scandal. Sjoblom told Edmundson that "this was not Madoff — this is a real bank, real investments with global portfolio managers, and real assets."

U. Chadbourne Continues to Represent Stanford

182. Chadbourne continued to represent Stanford until the very end. Besides assisting Stanford with some litigation in 2006, which was disclosed in Chadbourne's February 2007 response letter to BDO, Chadbourne also continued to provide securities representation to Stanford. In November 2008, Chadbourne partner Peter Ingerman corresponded with Alvarado with regard to a new "hedge fund of funds" project that Stanford was trying to structure. This transaction was part of Stanford's new plan to move all of his operations to St. Croix, U.S. Virgin Islands. Alvarado and the Chadbourne team began putting together the structure for the various funds in late 2008 and into 2009. In January 2009 Chadbourne forwarded the drafts of the fund documents to Stanford.

V. Stanford's Scheme Unravels

183. In late December 2008 and early January 2009, Sjoblom was informed that the purported third tier of investments in SIBL's CD investment portfolio included real estate and private equity holdings. Sjoblom knew that these investments were not only contrary to what Davis had represented to him about SIBL's investments, Sjoblom knew that this third tier — including the real estate investments — had not been disclosed to investors. Sjoblom further learned that these undisclosed investments constituted approximately ***80%*** of SIBL's reported investment portfolio value, or approximately ***$6 billion***. On January 7, 2009, Sjoblom spoke with Alvarado, who told

him that Stanford's immediate objective for the SEC investigation was to "gain time," and that "any publicity will kill us."

184. In the meantime, Sjoblom was still dealing with the FRB investigation of SFIS. On January 8, 2009 he held a teleconference with Lena Stinson and found out that SIBL had for many years issued bank credit cards to its clients referred by SFIS and had consistently issued the credit cards to the clients c/o of SFIS in Miami, Houston or San Antonio. SFIS also regularly instructed SIBL to pay SIBL customers' bills out of their SIBL accounts. Thus SFIS was clearly acting as a representative office of SIBL. Perrell also continued working on a legal Memo regarding the FRB's jurisdiction over Stanford in which she once again concluded that the FRB likely did have jurisdiction over SFIS as an affiliate of SIBL (and possibly had jurisdiction over SIBL as well).

185. Then on January 12, 2009, FINRA examiners staged a raid on several SGC offices, including Miami, Tupelo, Dallas, Memphis, Baton Rouge, Charlotte and New Orleans. Alvarado called Sjoblom in "a panic" (according to Sjoblom's notes). The FINRA examiners demanded access to SGC's computers and documents, began interviewing SGC employees, and threatened several SGC Branch Managers with the loss of their securities licenses when they refused to cooperate. FINRA was searching for information related to the SIBL CD program. Most dangerous to Stanford was that FINRA seized the hard drive from a computer at the Memphis office that possibly contained all of the SIBL portfolio information.

186. The next day Sjoblom wrote to FINRA objecting to the "forced production" and "strong arm tactics" employed by FINRA during the raids (which he later characterized as a "blitzkrieg" raid). FINRA responded directly to SGC and pointed out SGC's "continued failure to provide access" to the remainder of Stanford's Memphis offices' computer records, and noted that SGC's "outside counsel" (Sjoblom) had told FINRA that SGC would ***not*** provide access to the

computer records. FINRA demanded that all the Memphis computer records be made available or FINRA would take disciplinary action against SGC and the individuals involved.

187. On January 15, 2009 Sjoblom interviewed Bernie Young, Stanford's compliance director. For the first time, and belatedly, Sjoblom grilled a Stanford compliance manager (Young) about SIBL's auditor, C.A.S Hewlett, asking Young how SGC was comfortable with Hewlett as the auditor. Young responded only that he checked Hewlett out on the Internet and talked to the people at SIBL. That was it. Sjoblom asked Young how large was Hewlett's firm, how many people from Hewlett were involved in the SIBL audits each year, and whether Hewlett had any other clients. Young did not know the answers.

188. The next day, January 16, 2009, Sjoblom told Alvarado that he wanted to try and "shut down the breadth of the SEC exam interrogations," and asked Alvarado to send him a copy of the opinion letter regarding Stanford's compliance with the Investment Company Act that (Alvarado had told Sjoblom) had been prepared some years before by another law firm. Of course, Sjoblom's own associate Perrell had already done the research on this issue and concluded (wrongly) that SIBL was not subject to the Investment Company Act because it was a foreign commercial bank issuing loans (supposedly). On January 19, 2009, Alvarado's secretary forwarded the other law firm's 1998 Memo, which (like Perrell's) erroneously concluded that SIBL was not an investment company because it was a foreign commercial bank engaged primarily in the business of making loans.

189. On January 20, 2009, the SEC served, through Sjoblom, investigatory subpoenas to Allen Stanford, Davis, and Pendergest-Holt seeking testimony and documents related to SIBL's investment portfolio. Sjoblom understood that the SEC inquiry would require Stanford, Davis, and Pendergest-Holt to make a complete and transparent presentation to the SEC, under oath, regarding all assets related to SIBL's CD program, including Tier III assets.

190. On January 21, 2009, Sjoblom met with Stanford, Davis, Pendergest-Holt, and others at the Stanford airplane hangar in Miami, Florida, to discuss the SEC investigation and to determine who should testify before the SEC. At that meeting, and despite their knowledge that only Stanford and Davis were in a position to discuss the assets in the Tier III portfolio, Stanford, Davis, Pendergest-Holt, and Sjoblom all agreed that Sjoblom would try to convince the SEC that Stanford and Davis didn't know anything about SIBL's assets and that Pendergest-Holt and another SIBL executive, SIBL President Rodriguez Tolentino, were the best individuals to present testimony and evidence to the SEC regarding SIBL's entire investment portfolio. The participants also agreed to participate in a series of meetings in Miami, Florida during the week of February 2, 2009, to bring Pendergest-Holt and Rodriguez Tolentino "up to speed on Tier 3" before their testimony to the SEC.

191. Stanford flew that night to Houston, and the next day, January 22, 2009, Sjoblom met with several SEC attorneys at a restaurant in Houston to discuss issues related to the SEC investigation of Stanford Financial and SIBL. The SEC attorneys reiterated that their investigation was seeking to determine where and how the entire portfolio of SIBL assets were invested and managed, and that in order to do so they needed to depose Stanford Financial executives with the most knowledge of the "entire investment portfolio." Sjoblom falsely represented to the SEC lawyers that Allen Stanford and Davis did not "micro-manage" the portfolio and that Pendergest-Holt and Rodriguez Tolentino were the "better people to explain the details" about SIBL's ***entire*** portfolio. Sjoblom also represented to the SEC attorneys that SIBL was "not a criminal enterprise" and that "all assets are there."

192. The next day, January 23, 2009, Sjoblom met again with an SEC attorney at SFG's offices in Houston, Texas. Sjoblom requested that the SEC attorney defer the SEC subpoenas to Allen Stanford and Davis, and once again lied to the SEC and represented that Pendergest-Holt and

Rodriguez Tolentino would be better witnesses than Stanford and Davis, whom Sjoblom claimed were executive level officers of the company not involved in the "nuts and bolts" of the operations and who would not be able to tell the SEC attorneys about details of SIBL's assets. As a result of Sjoblom's misleading statements, the SEC attorneys agreed to postpone the testimony of Stanford and Davis and to instead take the testimony of Pendergest-Holt and Rodriguez Tolentino on February 9-10, 2009, respectively.

193. On January 24, 2009, Sjoblom sent an email to Alvarado, which Alvarado then forwarded on January 25, 2009 to Davis, Pendergest-Holt and Allen Stanford. Sjoblom's email stated that he had persuaded the SEC that Pendergest-Holt and SIBL President Rodriguez-Tolentino, not Stanford and Davis, would be better witnesses to testify about SIBL's entire portfolio of assets. Sjoblom further stated that "[w]e can fully anticipate that the SEC ***will*** want [Rodriguez Tolentino] to testify under oath that the bank is 'real,' the CDs are 'real,' that the money is actually invested as described in our documents, and that client funds in the CDs are safe and secure. The [SEC] staff will want to be protected against obstruction and perjury … [Rodriguez Tolentino] will have to be fully and carefully prepared so that he can provide details as best as humanly possible." Sjoblom further stated in the email that Pendergest-Holt would have to explain to the SEC her management and supervision of the bank portfolio and that, since she knew little about Tier 3, she would "have to get up to speed on Tier 3 before the SEC investigation." Sjoblom finished the email by stating that he wanted to make sure that Rodriguez Tolentino and Pendergest-Holt had enough time to "prepare and practice" the week before the SEC meeting.

194. On or about January 27, 2009, Sjoblom sent an email to Pendergest-Holt and Rodriguez Tolentino, with a copy to Davis, regarding the need to address all three tiers of the SIBL asset portfolio, stating that they (Pendergest-Holt and Rodriguez Tolentino) needed to "rise to the

occasion" and that "our livelihood depends on it." Sjoblom at that point was clearly intent on doing whatever was necessary to keep his client Stanford Financial (and SIBL) in business.

195. Sjoblom also sent an email to Alvarado on January 27th to finally question whether **Antiguan law really did prevent Stanford from disclosing SIBL's investment portfolio to the SEC**, as Sjoblom had been telling the SEC for the last roughly four (4) years. Perrell pulled the relevant provisions of the Antiguan IBC Act and sent them to Sjoblom on January 28, 2009, which, upon information and belief, was the first time that Sjoblom had ever looked at them. Perrell followed up with an email later that day to Sjoblom informing him that "***I do not see anything [in the Antiguan IBC Act] that expressly prohibits FSRC from disclosing the information***." Less than an hour later, Sjoblom wrote to SIBL's President Juan Rodriguez-Tolentino that he had studied the Antiguan law and found nothing in that law which provided confidential protection to the composition of SIBL's asset portfolio, and nothing that would prohibit Stanford or the FSRC from disclosing same to the SEC.

196. The next day, January 29, 2009, Sjoblom wrote to Lena Stinson and requested a legal opinion from SIBL's Antiguan counsel (Erroll Cort) "with an interpretation under the IBC Act that information regarding SIBL's assets…is confidential." Stinson responded that there was no such legal opinion, but that the FSRC was supposed to maintain the confidentiality of its Exam findings under the FSRC's own rules, and perhaps Rodriguez-Tolentino could provide more information.

197. **And still Sjoblom didn't resign.**

198. Instead, and in spite of what he had just learned, Sjoblom prepared a letter to the SEC in which he once again made the argument that SIBL's portfolio information was subject to "strict regulation and confidentiality" and that, "without the express authorization of the FSRC, SIBL simply cannot provide banking documents to the SEC regarding SIBL's assets." In the early draft of

this letter that Sjoblom sent to Alvarado, Sjoblom wrote a note to Alvarado that this argument was a "stretch" and that he (Sjoblom) was not licensed to interpret Antiguan regulations at any rate. Despite never getting an opinion from licensed Antiguan counsel, Sjoblom went ahead and signed the letter and forwarded it to the SEC's Kevin Edmundson on February 3, 2009.

199. In the last week of January 2009, right in the midst of the SEC investigation, Davis traveled to Antigua to meet with the FSRC's King. King appeared very stressed, and related to Davis that he had once again been contacted by the SEC. King asked Davis if "we were going to make it?", to which Davis responded that he thought they were going to be ok.

200. On February 2, 2009, Sjoblom became nervous. He asked Perrell to look at the Sarbanes-Oxley Act with regard to their duties as lawyers when they suspected that their client was engaged in securities fraud. Perrell sent Sjoblom section 307 of Sarbanes Oxley. Under that section, Sjoblom was required to "report up" the fraud to the Chief Legal Officer or CEO of SGC and if that was not successful, to report it to the Board of Directors and/or resign. But Sjoblom kept going.

201. On February 3, 4, 5 and 6, 2009, Sjoblom met with Davis, Pendergest-Holt, Rodriguez Tolentino, Defendant Alvarado, and, ultimately, Stanford himself (on February 5) and others at the Stanford Financial offices in Miami in order to "prep" the witnesses for their testimony to the SEC. During those meetings, Pendergest-Holt disclosed that the value of the assets she actually managed in Tier II totaled approximately $350 million, down from $850 million in June of 2008. At the meetings, Davis further revealed that the purported value of Tier III of SIBL's investment portfolio was made up of: (1) real estate valued at in excess of $3 billion which allegedly had been acquired earlier that year by SIBL for less than $90 million; (2) at least $1.8 billion in "loans" to Allen Stanford; and (3) various other private equity investments. Several of the Miami meeting participants acknowledged that if this disclosure was accurate, then the bank was insolvent.

At that point, Rodriguez Tolentino stated that he would not testify before the SEC. SGC President Danny Bogar broke down crying, and declared that he would have to go to the SEC and disclose the information.

202. The next day, February 5, 2009, Stanford himself made an appearance at the meetings and falsely informed the participants that despite what they had just been told, SIBL had “at least $850 million more in assets than liabilities.” Later in the day of February 5, 2009, Stanford, Davis and Sjoblom attended a separate meeting where Stanford acknowledged that SIBL’s assets and financial health had been misrepresented to investors, and were overstated in SIBL’s financials. After that meeting, Sjoblom entered the office of another Stanford Financial executive, Lena Stinson, and declared that the “party is over.”

203. On February 9, 2009 Sjoblom sent Defendant Alvarado an email admitting he’d helped Pendergest-Holt prepare the presentation she was going to give to the SEC. Sjoblom further stated that she would be asked “lots of questions” about all players, SIBL, marketing materials, and a little about Tier III to the extent she knew. Defendant Alvarado responded with frustration about the presentation, saying it “needs to be complete, accurate and correct. Thus you need to postpone her appearance before the SEC.” Sjoblom opted instead to go forward with the presentation.

204. During her testimony to the SEC on February 10, 2009 in Fort Worth, Texas, in which she, as an executive of Stanford Financial, was represented by Sjoblom, Pendergest-Holt committed perjury over and over while Sjoblom sat there, clearly aware of the outright lies being spun by his client to the SEC. In fact, Sjoblom actively suborned Pendergest-Holt’s perjury. In answering a direct question about who she had met with previously to help prepare for her testimony, Pendergest-Holt responded that she had only met with Sjoblom and no one else. When the SEC lawyers pressed her a little more about whether anyone else was present during her

meetings with Sjoblom, Sjoblom interrupted Pendergest-Holt as she started to answer the question and intentionally steered her to answer "no" by improperly recasting the question to narrow it to "when we were preparing last night, was there a third person present?", to which she answered "no". Testimony of Laura Pendergest-Holt, February 10, 2009, at 13:7-14:15. In addition to failing to disclose the Miami meetings the prior week and the participants at the meetings, Pendergest-Holt falsely stated in her SEC testimony that she was unaware of the assets and allocations of assets in Tier III of SIBL's portfolio, including specifically the existence of at least $1.8 billion in loans to Allen Stanford that was included in Tier III.

205. On February 12, 2009, Defendants Sjoblom and Proskauer sent a letter to the SEC informing the Commission that they were withdrawing from further representation of Stanford Financial and SIBL in all enforcement and other regulatory matters before the SEC. Two days later, on February 14, 2009, Sjoblom sent an email to SEC attorney Kevin Edmundson in which he disaffirmed "all prior oral and written representations made" by Sjoblom to the SEC regarding Stanford Financial and its affiliates from the beginning of his retention in 2005 (while at Chadbourne) through February 2009.

206. On February 25, 2009, Pendergest-Holt was criminally charged with lying to the SEC during the testimony she gave on February 10, 2009. In late March 2009, Pendergest-Holt filed a lawsuit against Defendants Sjoblom and Proskauer for legal malpractice and breach of fiduciary duty, and alleged that, unbeknownst to Pendergest-Holt at the time, the night before Sjoblom met with her to prepare her to testify before the SEC, Sjoblom had solicited a multimillion-dollar retainer from Allen Stanford to represent Allen Stanford personally.

V. STATUTE OF LIMITATIONS DEFENSES

W. Discovery Rule/Inquiry Notice/Equitable Tolling

207. The SEC filed an action against Allen Stanford and SIBL et al. on February 17, 2009, and on that same day the Receiver was appointed. Plaintiffs did not discover, and could not with the exercise of reasonable diligence have discovered until more recently, the true nature of the injury suffered by Stanford Financial or Defendants' participation in the Stanford Ponzi scheme. Moreover, the Defendants' wrongful acts were inherently undiscoverable. Plaintiffs also assert the doctrine of equitable tolling.

VI. CAUSES OF ACTION

208. For each of the following causes of action, Plaintiffs incorporate by reference and reassert the allegations above as if fully set forth below.

COUNT 1: Negligence

209. Defendants owed a duty to Stanford Financial, and therefore to the Receiver and/or the Committee, that required Defendants to exercise the degree of care, skill, or diligence that an attorney of ordinary skill and knowledge commonly possesses. Defendants' negligent acts or omissions breached that duty to Stanford Financial, and therefore to the Receiver and/or the Committee. Defendants' breach of this duty proximately caused an injury to Stanford Financial, and therefore to the Receiver and/or the Committee, by enabling Allen Stanford to misappropriate at least $1.8 billion in assets from Stanford Financial. As a result of Defendants' breach, Stanford Financial, and therefore the Receiver and/or the Committee, suffered damages.

COUNT 2: Aiding, Abetting, or Participation in Breaches of Fiduciary Duties

210. The directors and officers of Stanford Financial, including but not limited to the directors and officers of SIBL, SGC, STC, SFIS, STCL, and Stanford Financial Group Company,

owed fiduciary duties to their respective member companies within Stanford Financial, and therefore owed fiduciary duties to the Receiver and/or the Committee. These directors and officers breached their fiduciary duties by causing Stanford Financial to engage in illegal activity and enabling Allen Stanford to misappropriate at least $1.8 billion in assets from Stanford Financial.

211. Defendants knowingly or recklessly aided, abetted, or participated in these breaches of fiduciary duties. Defendants knew that Stanford Financial's directors and officers owed fiduciary duties to their respective Stanford companies, and Defendants were aware that these directors and officers were breaching their fiduciary duties. Defendants also knew that they were aiding, abetting, or participating in these breaches of fiduciary duties by the conduct alleged herein. The breaches of fiduciary duties by Stanford Financial's directors and officers and Defendants' participation in these breaches were a proximate cause of actual damages to Stanford Financial, and therefore to the Receiver and/or the Committee. Defendants knew or should have known that their aiding, abetting, or participation in these breaches of fiduciary duties would result in extraordinary harm to Stanford Financial and therefore the Receiver and/or the Committee. Accordingly, Plaintiffs are entitled to recover exemplary damages in excess of the minimum jurisdictional limits of this Court.

COUNT 3: Aiding, Abetting, or Participation in a Fraudulent Scheme

212. By their conduct described herein, Defendants aided, abetted, and/or participated with the various directors and officers of Stanford Financial, including but not limited to the directors and officers of SIBL, SGC, STC, SFIS, STCL, and Stanford Financial Group Company, in a fraudulent scheme against Stanford Financial and its affiliated member companies, and therefore against the Receiver and/or the Committee. In particular, Defendants' legal services and other services assisted a fraudulent scheme that enabled Allen Stanford to misappropriate at least $1.8 billion from Stanford Financial, and therefore from the Receiver and/or the Committee. As a result

of this conduct, Defendants are directly liable for fraud, and Defendants' actions, in combination with the actions of various directors and officers of Stanford Financial, are a proximate cause of actual damages to Stanford Financial, and therefore to the Receiver and/or the Committee.

COUNT 4: Aiding, Abetting, or Participation in Fraudulent Transfers

213. Plaintiffs are entitled to disgorgement of funds transferred from Stanford Financial to third parties because the payments constitute fraudulent transfers under applicable law. Stanford Financial made the payments to third parties with actual intent to hinder, delay, or defraud Stanford Financial's creditors, and as a result, Plaintiffs are entitled to the disgorgement of those payments. Additionally, Stanford Financial transferred the funds to third parties at a time when Stanford Financial and its affiliated member companies were insolvent, and Stanford Financial did not receive reasonably equivalent value in exchange for the transfers, and/or any value received was in furtherance of the Ponzi scheme that Defendants either knew or should have known about and to which they were recklessly and willfully blind.

214. By their conduct described herein, Defendants knowingly or recklessly aided, abetted, or participated in these fraudulent transfers to third parties. Defendants were aware that Stanford Financial was fraudulently transferring assets to third parties, and Defendants were also aware that they were aiding, abetting, or participating in these fraudulent transfers. The fraudulent transfers and Defendants' participation in these fraudulent transfers were a proximate cause of actual damages to Stanford Financial, and therefore to the Receiver and/or the Committee. Therefore, the Receiver and/or the Committee is entitled to recover from the Defendants the full amount of any payments that third parties received from Stanford Financial, either directly or indirectly. The Receiver and/or the Committee are also entitled to recover attorneys' fees and costs for their claims against

Defendants. As a result, the Receiver and/or the Committee request reasonable attorneys' fees and costs for prosecuting their fraudulent-transfer claims against Defendants.

COUNT 5: Aiding, Abetting, or Participation in Conversion

215. Stanford Financial, and therefore the Receiver and/or the Committee, owned, possessed, or had the right to immediate possession of personal property. Allen Stanford and Stanford Financial's other directors and officers wrongfully exercised dominion or control over such property and enabled Allen Stanford to misappropriate at least $1.8 billion in such property from Stanford Financial, thereby causing damages to Stanford Financial, and therefore causing damages to the Receiver and/or the Committee.

216. By their conduct described herein, Defendants knowingly or recklessly aided, abetted, or participated in this misappropriation and conversion of at least $1.8 billion in property from Stanford Financial, and therefore from the Receiver and/or the Committee. Defendants were aware that Allen Stanford and Stanford Financial's other directors and officers were wrongfully exercising dominion or control over Stanford Financial's personal property, including at least $1.8 billion that Allen Stanford misappropriated and converted, and Defendants were also aware that they were aiding, abetting, or participating in this wrongful conversion of Stanford Financial's personal property. The conversion of funds by Allen Stanford and Stanford Financial's other directors and officers was a proximate cause of actual damages to Stanford Financial, and therefore to the Receiver and/or the Committee. As a result, Stanford Financial, the Receiver, and/or the Committee have suffered injury.

COUNT 6: Civil Conspiracy

217. Defendants conspired with Allen Stanford and Stanford Financial's directors and officers, including but not limited to the directors and officers of SIBL, SGC, STC, SFIS, STCL, and Stanford Financial Group Company, to commit the wrongful conduct described herein, including breaches of fiduciary duties, fraudulent transfers, and conversion. Defendants are responsible for all wrongdoing done by each of the other members of the conspiracy, including Allen Stanford, Jim Davis, Mauricio Alvarado, Laura Pendergest-Holt, Rebecca Hamric, Jane Bates, Lena Stinson, Bernie Young, SIBL's president Juan Rodriguez Tolentino, Leroy King, and others, in furtherance of the unlawful conspiracy and enterprise. In particular, Defendants are responsible for Allen Stanford's misappropriation of at least $1.8 billion from Stanford Financial Group, and therefore from the Receiver and/or the Committee.

218. There was a meeting of the minds between Stanford, Davis, Alvarado, King, and others as to the need to conceal Stanford Financial's true nature and activities (particularly the contents of SIBL's portfolio) and to evade regulatory scrutiny. This meeting of the minds grew to include other participants, including Pendergest-Holt, members of the Antiguan Government, and eventually, Defendants. Defendant Sjoblom, while employed by Chadbourne, joined the conspiracy and had a meeting of the minds with the principals of Stanford Financial in August 2005 and agreed to assist Stanford Financial to conceal the fraudulent nature of its activities by evading regulatory scrutiny from 2005 through February 2009, which concealment was crucial and central to the perpetuation of the Stanford Ponzi scheme. Sjoblom continued to be actively involved in furthering the objective of the conspiracy upon his employment with Proskauer later in 2006. Defendants therefore knowingly combined together and with the principals of Stanford Financial to assist

Stanford Financial to frustrate the investigatory efforts of the SEC and other U.S. regulatory agencies so as to enable the Stanford Ponzi scheme.

219. As described herein, Defendants took various overt acts designed to assist Stanford Financial and SIBL to accomplish the goal of shielding Stanford Financial and SIBL from regulatory scrutiny and therefore further the Stanford Ponzi scheme. These overt acts in furtherance of the conspiracy included lying to the SEC about Stanford Financial and SIBL and encouraging others to lie, hide documents, and otherwise mislead and deceive the SEC in an ongoing SEC investigation. By doing so, Defendants acted pursuant to their meeting of the minds with Stanford, Davis, Alvarado and others in pursuit of the common purpose of the conspiracy: to conceal the fraudulent nature of Stanford Financial's activities and shield Stanford Financial from regulatory scrutiny by thwarting an active investigation by the SEC so as to allow Stanford Financial and SIBL to continue perpetuating the Ponzi scheme. Defendants' conspiracy with these co-conspirators to breach fiduciary duties, fraudulently transfer assets, and convert Stanford Financial property is a proximate cause of actual damages to Stanford Financial, and therefore to the Receiver and/or the Committee.

220. Defendants' actions in furthering the conspiracy to conceal, hinder and obstruct regulatory investigations were taken during the conspiracy's operation. Indeed, Defendants' actions were taken to protect the Stanford Ponzi scheme and to avoid regulatory intervention so that the Stanford Ponzi scheme could continue and Stanford Financial could continue paying Defendants' bills. Therefore, Defendants' actions were part of a continuing activity that was illegal in nature and essential to furthering the survival of an ongoing Ponzi scheme conspiracy. But for the overt acts taken by members of the conspiracy to further the objectives of the Ponzi conspiracy described herein, Allen Stanford would not have been able to carry out his Ponzi scheme, and millions of dollars belonging to Stanford Financial would not have been lost.

COUNT 7: Negligent Retention / Negligent Supervision

221. Defendants Proskauer and Chadbourne are directly liable to the Receiver and/or the Committee for negligent retention and supervision of their employee Defendant Sjoblom. From the time that Sjoblom joined the conspiracy described here in August 2005 until sometime in September 2006, Sjoblom was employed by Chadbourne. Thereafter, from September 2006 through the end of 2009, Sjoblom was an employee of Proskauer. Defendants Proskauer and Chadbourne owed a duty to Stanford Financial, and therefore to the Receiver and/or the Committee, to use ordinary care in the hiring, supervision and retention of their agents and employees and in monitoring the activities of their employee in representing an offshore bank selling financial products in the United States that was under investigation by the SEC. Defendants Proskauer and Chadbourne knew or should have known that Sjoblom had been specifically retained by Stanford Financial to help it thwart an active SEC investigation of its activities. As a result, Defendants Proskauer and Chadbourne breached the duty owed to Stanford Financial, and therefore to the Receiver and/or the Committee, by not exercising ordinary care in the hiring, supervision and retention of Sjoblom and in not monitoring his activities with regard to this specific, inherently high-risk, client matter. Defendants' breach of their duties and failure to supervise has proximately caused damages to Stanford Financial, and therefore to the Receiver and/or the Committee.

VII. RESPONDEAT SUPERIOR

222. Defendants Proskauer and Chadbourne are liable for the tortious acts of their employee, Defendant Sjoblom. From the time that Sjoblom joined the conspiracy described herein in June 2005 until sometime in August 2006, Sjoblom was employed by Chadbourne. Thereafter, from August 2006 through late 2009, Sjoblom was an employee of Proskauer. Sjoblom was acting within the course and scope of his respective employments with Proskauer and Chadbourne, and in

furtherance of said law firms' respective businesses, when he engaged in the wrongful conduct described herein.

VIII. ACTUAL DAMAGES

223. The Receiver and/or the Committee have suffered the loss of at least $1.8 billion that was proximately caused by the wrongful conduct of Defendants and their conspiracy with Allen Stanford and others as described herein. In the alternative, Defendants Chadbourne, Proskauer and Sjoblom are liable for all damages caused to Stanford Financial, and therefore to the Receiver and/or the Committee, during the time period from 2005 to 2009 during which the Defendants participated in the conspiracy to obstruct the SEC investigation into Stanford Financial and SIBL's fraudulent sales practices. In addition, the Receiver and/or the Committee are entitled to recover their just and reasonable attorneys' fees, subject to Court approval, for it would be inequitable not to award such fees to them. The Receiver and/or the Committee have retained the undersigned attorneys and have agreed to pay them a reasonable attorneys' fee for their work.

IX. PUNITIVE DAMAGES

224. The wrongful conduct set forth herein constitutes fraud or malice, willful acts or omissions, or gross neglect. The Receiver and/or the Committee are entitled to recover punitive damages in an amount necessary to punish the Defendants and to deter similar conduct of others in the future.

X. CONDITIONS PRECEDENT

225. All conditions precedent to filing this Complaint have been met.

XI. JURY DEMAND

226. The Receiver and the Committee demand a trial by jury.

PRAYER

WHEREFORE, the Receiver and the Committee request that the Defendants be summoned to answer this Complaint, that the case be tried before a jury, and that upon final judgment the Receiver and the Committee recover their damages as alleged herein, including their actual damages, punitive damages, and their costs and expenses of suit, including reasonable attorneys' fees. The Receiver and the Committee pray for such other relief to which they may be justly entitled.

Respectfully submitted,

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