

Stanford jailed for fraud -- Former company execs turn on boss, cooperate in federal probe

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For Memphians who saw Texas financier R. Allen Stanford bring his lavish operation to town, attract millions of dollars into an allegedly fraudulent investment scheme and attach himself to some of the city's most cherished institutions, Friday's indictment and ordered jailing provide the first steps toward justice.

And it appears that the government's star witness could be James Davis, the Memphis-based chief financial officer from Northeast Mississippi, who was charged with six others - including Memphis-based chief investment officer Laura Pendergest-Holt - with helping Stanford run a \$7 billion swindle.

A federal judge in Virginia ordered Stanford, arrested on Thursday night, to remain in custody until a future detention hearing in Houston. Davis and Pendergest-Holt have been cooperating with investigators and have not been detained.

If convicted of all charges in the 21-count indictment, Stanford could face as much as 250 years in prison.

Dick DeGuerin, Stanford's lawyer, said in a written statement that Stanford was "confident that a fair jury will find him not guilty of any criminal wrongdoing."

Davis, 60, was not indicted but charged instead under a criminal information that alleges the same crimes as those contained in the separate indictments: conspiracy to commit mail, wire and securities fraud; mail fraud; and conspiracy to obstruct an SEC investigation.

The government is seeking forfeiture of as much as \$1 billion in fraud proceeds from Davis.

David Finn, Davis' Dallas-based attorney, indicated to The Commercial Appeal that he is working toward a plea agreement, writing in an e-mail that "we are trying to work out some wrinkles on that front." He also appeared to offer a preview of a future courtroom scene featuring Davis, who was Stanford's college roommate at Baylor University in Waco, Texas.

"Mr. Davis has, and will continue to, accept full responsibility for his actions," Finn wrote. "He realizes that a lot of good people have been hurt by what happened at Stanford Financial. And at Allen Stanford's trial the jury, and the entire world, will see that the orchestrator and the prime beneficiary of the Stanford fraud was Sir Allen Stanford himself."

Pendergest-Holt's lawyers are steadfastly proclaiming her innocence: "She was innocent before this indictment, and she's innocent after it, too," said Dan Cogdell, the Houston-based criminal defense lawyer she obtained after an arrest more than two months ago for obstruction of justice. A native of a small town in Northeast Mississippi like Davis, the 35-year-old has a formidable legal team.

Court papers charge that Stanford and top executives orchestrated the massive fraud by advising clients to buy certificates of deposit from the Antigua-based Stanford International Bank. Stanford began establishing a presence in Memphis around 2004, hiring many established and prominent brokers in the area, and would later spend millions succeeding FedEx as title sponsor for Memphis' 52-year-old PGA Tour event that benefits St. Jude Children's Research Hospital.

Stanford also devised a marketing strategy around making big donations to respected nonprofit institutions in Memphis .

Authorities claim that, like Bernard Madoff, Stanford's business was based on a classic scam of faking investment returns while attracting new investors to keep the operation afloat.

"This case is a typical Ponzi scheme, robbing Peter to pay Paul," said Gregory Campbell of the U.S. Postal Inspection Service.

Stanford's 59-year-old lawyer, DeGuerin, denies the allegations and said that, "the present insolvency of the Stanford Companies was caused by the SEC's heavy-handed actions."

A group of Stanford investors said in a statement that their losses "are devastating, as senior citizens are losing their homes, going without medical care, and becoming a burden on their children and families."

The other Stanford executives indicted were Gilberto Lopez and Mark Kuhrt, two Houston-based accountants.

Leroy King, the former chief executive officer of Antigua's Financial Services Regulatory Commission, is charged with accepting more than \$100,000 in bribes from Stanford and obstructing investigators.

Lopez, Kuhrt and King were also added to an amended complaint filed Friday morning by the SEC .

Lopez and Kuhrt are accused by the SEC, among other things, of fabricating financial statements under the direction of Stanford and Davis. Neither is a certified public accountant .

King is accused of accepting bribes and conducting "sham audits and examinations" of the bank's books.

Tim Johnson, U.S. attorney of the southern district of Texas, said he and other federal prosecutors were looking forward to making their case in court.

"We will likely be unable to restore all of the money that has been lost by the victims," Johnson conceded. "We hope, however, to be able to restore confidence in the investing public and to put others who would commit similar schemes on notice that their actions will not go unchecked."

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Our wire services contributed to this story.

Full copies of government cases against R. Allen Stanford and his Memphis-based executives are available on our Web site.

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David Finn

attorney for James Davis

• **Caption:** PhotosJames Davis R. Allen Stanford

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