Department of Justice

FOR IMMEDIATE RELEASE
Thursday, August 27, 2009
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AG
(202) 514-2007
TDD (202) 514-1888

Stanford Financial Group CFO Pleads Guilty to Charges Related to $7 Billion Scheme to Defraud Investors

James M. Davis, 60, the former chief financial officer of Houston-based Stanford Financial Group (SFG), pleaded guilty today to fraud and obstruction charges related to a $7 billion scheme to defraud investors.

Davis was charged in a criminal information, filed on June 18, 2009, with conspiracy to commit mail, wire and securities fraud; mail fraud; and conspiracy to obstruct a U.S. Securities and Exchange Commission (SEC) investigation. The criminal information also seeks forfeiture of up to $1 billion in fraud proceeds.

According to the plea documents, Davis admitted that as part of the scheme, he and his co-conspirators defrauded investors who purchased approximately $7 billion in certificates of deposit (CDs) administered by Stanford International Bank Ltd. (SIBL), an offshore bank located on the island of Antigua. Davis further admitted that he and his co-conspirators misused and misappropriated most of those investor assets, including by diverting more than $1.6 billion into undisclosed personal loans to a co-conspirator, while misrepresenting to investors SIBL's financial condition, its investment strategy and the extent of its regulatory oversight by Antiguan authorities.

According to the plea documents, Davis and his co-conspirators began in 1990 to make false entries into the general ledgers of SIBL relating to revenues and revenue balances. Despite this false reporting, Davis and his co-conspirators promoted SIBL's investments as being "well-managed, safe and secure" and touted in SIBL's annual reports false year-by-year percentage and dollar increases in the purported value of SIBL's earnings, revenue and assets.

Davis further admitted in the plea documents that he and his co-conspirators used bogus revenue numbers for each year to generate the desired "Return on Investment" that was reported to investors. These "reverse engineered" numbers were developed using a secret instruction sheet that Davis admitted was provided to employees in SFG's accounting group with instructions on to how to make changes to the spreadsheets to generate the false adjusted revenue figures.

Davis also admitted in the plea documents that in order to effectuate the scheme, misrepresentations were made to investors about who managed SIBL's entire non-cash portfolio of assets. Specifically, Davis admitted that 80 percent of SIBL's portfolio, internally referred to as "Tier III," was not managed by global money managers, as was represented to investors, but was actually made up of illiquid investments. These included at least $2 billion in personal loans to a co-conspirator, which were disguised as investments, and overvalued real and personal property, including interests in real estate that SIBL had acquired in 2008 for approximately $65 million, but was ultimately valued on SIBL's books at $3.2 billion. Davis admitted that none of these facts were disclosed to investors.

According to the plea documents, Davis admitted that he and his co-conspirators promoted the sale of SIBL CDs by representing to SIBL CD investors that SIBL's operations and financial condition were being scrutinized by Antigua's bank regulator, the Financial Services Regulatory Commission (FSRC). Davis also admitted that he knew these statements to be false, because he and his co-conspirators had funneled bribe payments to a bank regulator, who is also an accused co-conspirator, in order to ensure that Antiguan regulators would not properly examine the financial statements of SIBL.

Also according to the plea documents, from 2005 through February of 2009, Davis admitted that he and his co-conspirators made a number of misrepresentations to the SEC in order to impair and impede the SEC's investigation.

Davis has also agreed to the entry of a preliminary order of forfeiture in the amount of $1 billion.

In related cases, Robert Allen Stanford, chairman of SFG; Laura Pendergest-Holt, the chief investment officer of SFG; Gilberto Lopez, SFG's chief accounting officer; Mark Kuhrt SFG's global controller; and Leroy King, the administrator and chief executive officer of the FSRC, were indicted on June 18, 2009, on fraud and obstruction charges related to the scheme. Each are charged with conspiracy to commit mail, wire and securities fraud; wire fraud; mail fraud; and conspiracy to commit money laundering. In addition, Stanford, Pendergest-Holt and King are charged with conspiracy to obstruct an SEC investigation and obstruction of an SEC investigation. A trial date has not been set.

Also, on June 19, 2009, the U.S. District Court for the Southern District of Florida unsealed an indictment charging Bruce Perraud, a former SFG global security specialist at SFG's Ft. Lauderdale, Fla., office, with one count of destruction of records in a federal investigation. Perraud is scheduled to stand trial on Sept. 21, 2009.

An indictment is merely an allegation. Defendants are presumed innocent until and unless proven guilty in a court of law.

The case is being investigated by the FBI's Houston Field Office, Internal Revenue Service - Criminal Investigation and the U.S. Postal Inspection Service. The case is being prosecuted by individuals from the Criminal Division's Fraud Section, including Paul E. Pelletier, Principal Deputy Chief; Jack Patrick, Senior Litigation Counsel; Matthew Klecka, Trial Attorney; and Allan Medina, Fraud Section Law Clerk, as well as Gregg Costa, Assistant U.S. Attorney for the Southern District of Texas.

The Criminal Division's Asset Forfeiture and Money Laundering Section continues to assist the trial team by working with our foreign counterparts to facilitate the freezing of assets in the United Kingdom, Canada, Switzerland and other countries. The Criminal Division's Office of International Affairs and the U.S. Attorney's Office for the Southern District of Florida also continue to provide assistance in this matter.

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