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

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

RECEIVER'S MOTION TO APPROVE SALE OF INVESTMENT INTERESTS IN USFR, MCB, DGSE, AND SUPERIOR

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RALPH S. JANVEY

TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES

I. INTRODUCTION

Ralph S. Janvey, Receiver for the assets of Defendants and all Stanford-controlled entities, respectfully moves the Court for an order approving the sale of certain private equity interests held by the Receivership Estate. As explained in detail below, the Receiver has obtained offers from prospective buyers who wish to purchase investments held by the Receivership Estate in (i) US Farm & Ranch Supply Company, Inc. d/b/a USFR Media Group ("USFR"), an integrated media company; (ii) Merchants Commercial Bank ("MCB"), a regional bank operating in the Virgin Islands; and (iii) DGSE Companies, Inc. ("DSGE"), a coin and jewelry company, and its wholly-owned subsidiary Superior Galleries, Inc. ("Superior").[1] The Receiver has reviewed and analyzed these offers, and has sought and received recommendations from his private equity advisor, Park Hill Group ("PHG"), concerning each.[2] Based upon PHG's recommendations, the Receiver believes that the liquidation of these investments pursuant to the pending offers will achieve the maximum benefit from the holdings and is in the best interests of the Receivership Estate.

II. FACTUAL BACKGROUND

On February 16, 2009, the Securities and Exchange Commission (the "Commission") commenced a lawsuit in this Court against R. Allen Stanford, two associates, James M. Davis and Laura Pendergest-Holt, and three of Mr. Stanford's companies, Stanford International Bank, Ltd., Stanford Group Company, and Stanford Capital Management, LLC (collectively "Defendants"). The Commission alleges, in its First Amended Complaint filed on

[1] Stanford Venture Capital Holdings, Inc. ("SVCH"), Stanford International Bank, Ltd. ("SIBL"), and Stanford Group Company ("SGC") have investment interests in USFR. SVCH holds an equity interest in MCB, and SIBL has investment interests in DGSE and Superior. For the purpose of convenience, these entities are referred to as "Stanford" throughout this motion.

[2] On July 16, 2009, the Receiver filed his Motion to Appoint Private Equity Advisor and requested the approval of the Court to retain PHG to manage the Investment Portfolio (as defined below). The Court granted the Receiver's Motion on December 10, 2009. PHG will receive a 3% commission for its work on these sales, totaling $184,087.50, should the Court approve these transactions.

February 27, 2009, that Defendants perpetrated a multi-billion-dollar fraudulent scheme by (1) promising high rates of return on "certificates of deposit" that exceeded those available through true certificates of deposit offered by traditional banks; and (2) selling a proprietary mutual fund wrap program known as Stanford Allocation Strategy using materially false and misleading historical performance data. Am. Comp. (Doc. 48) ¶¶ 3, 6.

The Court found good cause to believe that Defendants violated federal securities laws. Accordingly, on February 17, 2009, the Court entered an order appointing Ralph S. Janvey Receiver over all the assets of Defendants and all the entities they own or control. Order Appointing Receiver (Doc. 10). On March 12, 2009, the Court entered an Amended Order Appointing Receiver that contained changes not material to this motion (the "Receivership Order"). Amended Order Appointing Receiver (Doc. 157).

The Receivership Order charged the Receiver with marshaling and preserving the assets of the Receivership Estate. In conducting his duties, the Receiver identified numerous debt and equity investments made in nearly 40 different companies (the "Investment Portfolio"). While the Receivership Estate's records reflect that approximately $650,000,000 was initially invested in the Investment Portfolio, these figures have not been audited, and the Receiver and PHG expect that the Receivership Estate will realize far less for these investments. Many of these investments are in entities with negative equity, market conditions or adverse events have reduced the value of others, and a number include contractual commitments that would require the Receivership Estate to contribute additional millions of dollars or face significant dilution or total loss of the investment.

Included in the Investment Portfolio are direct investments by Stanford in USFR, MCB, DGSE, and Superior. These holdings are a part of the Receivership Estate, and the Receiver now seeks Court authority to liquidate these investments.

III. ARGUMENT AND AUTHORITIES

A common-law equity receiver has the power to dispose of property of the receivership estate when it appears that a receivership is continuing an enterprise that does not show evident signs of working out for the benefit of the creditors. *See Jones v. Village of Proctorville*, 290 F.2d 49, 50 (6th Cir. 1961). Courts appointing a receiver "should see that the business is liquidated as economically and speedily as possible, unless its continuance is demonstrably beneficial to creditors." *Id.* (citing *Kingsport Press, Inc. v. Brief English Systems*, 54 F.2d 497, 501 (2d Cir. 1931)).

The proposed sales of the identified investments are in the best interest of the Receivership Estate. In the case of USFR, Stanford invested a total of $24,942,239 over a nine-year period. However, USFR is experiencing significant financial difficulties, and has generated operating deficits for the last several years. Due to these factors, USFR's value has decreased sharply, and it faces the prospect of insolvency if it does not receive an immediate capital infusion, which, according to PHG, is unlikely as long as Stanford is a USFR investor. As detailed herein, the proposed sale would result in a $2 million cash payment to the Receivership Estate, and the buyer would inject an additional $2 million into USFR to maintain its operations. According to PHG, the $2 million in proceeds from the proposed sale is substantially more than Stanford would receive in a liquidation.

With respect to MCB, a bank located in the Virgin Islands, Stanford initially invested $1,072,500. MCB's loan book is almost entirely comprised of loans collateralized by real estate located in the Virgin Islands. Given the erosion of regional property values, MCB is experiencing a substantial number of non-performing loans, which have negatively affected MCB's revenues and overall financial condition. Because of this, according to PHG, Stanford's investment in MCB is at risk of significant devaluation. The proposed sale, which would result in a $536,250 payment to the Receivership Estate, presents the best opportunity for Stanford to recover a portion of its initial investment.

Over an eight-year period, Stanford loaned a total of $10,550,000 to Superior, and, through related transactions, acquired equity interests in both DGSE and Superior. However, Superior now is facing significant operational and financial difficulties that threaten its solvency. Since 2002, Superior has routinely generated large operating deficits. DGSE has indicated to PHG that it is unwilling to fund Superior's future operations, and therefore intends to discontinue and liquidate Superior's business if an agreement is not reached with the Receiver. The liquidation of Superior would place Stanford's investment at risk of becoming worthless. The proposed sale would avoid the liquidation of Superior and result in a $3.6 million payment to the Receivership Estate.

PHG actively marketed these investments to a number of potential bidders in an attempt to recover the highest dollar value for the Receivership Estate. In all cases, the performance of these investments and the constraints of the applicable markets combined to limit the exit opportunities available to Stanford. Stanford's interests in USFR and MCB are, by their nature, illiquid. No active public market exists by which an investor can liquidate its interest. As a result, PHG focused its marketing efforts on the limited secondary market, wherein private equity holders like Stanford may attempt to liquidate their holdings through a sales process. The interest in the secondary market is driven by a variety of factors, including the (i) type and quality of the assets; (ii) industry and regional focus; (iii) track record of the management;

(iv) size of the investment; (v) size of the interest for sale; (vi) amount of unfunded capital; (vii) capital needs of the company; (viii) supply of similar interests in the market; and (ix) availability of financing and exit options available to the company. According to PHG, these factors severely limited the number of prospective buyers interested in purchasing Stanford's investments in USFR and MCB.

Similarly, although DGSE's common stock is traded on the American Stock Exchange ("AMEX"), its thinly-traded nature makes a public market exit impossible. As a result, PHG focused its marketing efforts on private equity and secondary firms, but was unable to generate any interest in these investments since the assets of Superior have substantially deteriorated and the debt component of Stanford's investment is largely unsecured. In addition, DGSE's restrictive transfer stance precluded the unilateral sale of Stanford's investments to a third party. PHG ultimately determined that the proposed sale and transfer of Stanford's interest to DGSE was the only transaction without substantial negative consequences to both the equity value and debt components of SIBL's investments.

The offers generated by PHG are the product of significant negotiations with the prospective buyers, and PHG concluded that these offers represent the highest dollar value available for the Receivership Estate. The Receiver is unlikely to secure a higher offer in the foreseeable future. As such, the Receiver believes that the proposed sales are in the best interest of the Receivership Estate.

A. Stanford's Holdings in USFR

USFR, founded in February 2000 and based in Houston, Texas, was established to develop an integrated media group focused on the western lifestyle. USFR is divided into three operating divisions: (i) publishing; (ii) broadcasting; and (iii) video production. Its publishing division owns and distributes two magazines headquartered in Dallas, Texas: *Cowboys &*

Indians and *Western & English Today*. *Cowboys & Indians* is an affluent western lifestyle magazine, and *Western & English Today* is a business publication distributed to western and equestrian manufacturers and retailers. USFR's broadcasting division owns Channel 55, a full power, independent UHF television station in Houston, Texas. USFR's video production division, formed in 2009, shares Channel 55's facilities and produces advertisements, infomercials, and promotional videos for third-party clients.

Since June 2001, Stanford invested, in the aggregate, $24,942,239 in USFR. A significant portion of Stanford's investment is debt in the form of two convertible notes. Stanford holds a 12% subordinated convertible note in the original principal amount of $490,234, and a 10% subordinated convertible note in the original principal amount of $20,250,000. While both of these notes are secured, they are subordinated to approximately $7.5 million in bank debt. Although inferior to the bank debt, Stanford's $490,234 convertible note holds senior secured status. The $20,250,000 convertible note shares equal rights with $14.75 million in other convertible notes, and is subordinated to both the bank debt and a tranche of up to $5 million in senior subordinated notes.[3]

Stanford's equity stake in USFR consists of 6,387,994 shares of common stock, which is equivalent to about 12% of USFR's outstanding shares, and warrants to acquire up to 3,517,968 additional shares of USFR common stock, with exercise prices ranging from $0.05 to $0.25 per share.[4]

USFR currently is experiencing significant financial difficulties, and requires an immediate infusion of capital to maintain operations. In 2008 and through the first nine months

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[3] Approximately $3 million of the $5 million tranche has been advanced, an amount that includes Stanford's other convertible note in the amount of $490,234.

[4] A table detailing Stanford's investments is provided in PHG's Recommendation as to USFR. Exhibit A (Appendix at 3-7).

of 2009, USFR incurred operational losses totaling over $14 million. *See* PHG's Recommendation as to USFR, attached as Exhibit A (Appendix at 3-7). Further, as of December 31, 2009, USFR had approximately $1.1 million in payables over 90 days past due, a portion of which is owed to critical vendors. *Id.*

USFR's most significant asset is Channel 55, for which it paid approximately $31.5 million in November 2006. However, like other media assets, the value of Channel 55 has severely declined, and it has yet to achieve a positive broadcast cash flow. Due to this situation, the value of Channel 55 is significantly impaired, and waning market demand for television assets may result in further value diminution.

USFR's publishing division revenues totaled approximately $6.9 million in 2009, down 12% from 2008. *Id.* Based on 2010 projections, USFR's publishing division revenues are expected to decline by an additional 5%. *Id.*

Compounding its problems, USFR has found it difficult to attract new investors or to receive additional funding from existing investors, in part due to the reputational impact of USFR's affiliation with Stanford. USFR has gone to considerable lengths to strengthen its balance sheet, including the hiring of a boutique investment bank in an attempt to raise capital. To date, these efforts have been unsuccessful. No investor approached has been willing to advance financing given the large amount of short-term debt outstanding to Stanford. Simply put, there is not any interest from the marketplace in investing in USFR while Stanford remains a stakeholder. A successful fundraising effort could provide an exit opportunity to Stanford. On the other hand, as time passes, the continued accrual of operating deficits will limit the prospect of finding a willing buyer, and also will diminish any consideration paid to Stanford.

Unless a capital infusion is achieved quickly, USFR will be at risk of insolvency. Taking into account the other debt and equity holders, including those with interests superior to or *pari passu* with Stanford, PHG estimates that Stanford would recover minimal value for its interests in the event of liquidation. *Id.* According to PHG, the estimated liquidation value of USFR's assets totals approximately $10 to $11 million.[5] *Id.* In the event of liquidation, Stanford's debt status entitles it to only $490,234 of the first $10.5 million—the value of its sole convertible note with senior secured status. The remainder of Stanford's investments would be effectively eliminated. *Id.*

Further, even assuming USFR avoids liquidation, the fair market value of its assets is only $14 to $15 million, and Stanford's investment is only a portion of that amount. *Id.* As noted, USFR currently carries $7.5 million of secured bank debt. In addition, USFR estimates that it needs an immediate infusion of $1.5 million for its payables due to the critical vendors necessary for USFR to stay operational. Deducting those amounts, only $5 to $6 million of value remains for the subordinated lenders. Approximately $3 million of value must be allocated to the senior secured holders, of which Stanford's share is $490,234 based upon its one promissory note with senior status. Of the value remaining, about 57% would be attributable to Stanford. Based upon these calculations, USFR estimates that the current value of Stanford's investment is approximately $1.6 to $2.2 million. *Id.* Importantly, this value only can be achieved if USFR receives additional funding to cover anticipated operating losses until the economy turns more favorable, thereby allowing it to avoid liquidation.

B. The USFR Offer

Due to USFR's troubled financial condition, the Receiver engaged PHG to actively market Stanford's holdings in USFR. With the assistance of USFR's management, PHG

[5] This value assumes USFR is unable to achieve a cash infusion and is forced to rapidly liquidate its assets.

conducted an extensive search for potential buyers for Stanford's investments. Because of the illiquid nature of Stanford's investments, PHG's search focused on the secondary market for sales of private equity interests. Together, PHG and USFR's management solicited interest from over 20 potential investors, including three high net worth investors, eight strategic investors, five private equity firms, and seven secondary buyers. PHG also maintained an electronic data room that provided potential bidders with key documents, such as USFR's financial statements, operating results, and capitalization tables.

Due to the aforementioned risk factors, almost all of the potential investors contacted by PHG and USFR declined to bid. Ultimately, the Goodman Group, the largest equity shareholder in USFR, proposed to purchase Stanford's interest through a newly-formed company, KTBU Acquisition LLC ("KTBU Acquisition"). Under the terms of the offer, the Receivership Estate would receive a cash payment from KTBU Acquisition of $2 million for its holdings in USFR. KTBU Acquisition also would infuse $2 million into USFR to enable it to satisfy its past-due payables and fund continued operating losses. KTBU Acquisition's $2 million offer is substantially higher than the $490,234 return that the Receivership Estate would receive in a liquidation, and is within the range of what Stanford could expect to receive based on current market value.

After conducting an analysis of KTBU Acquisition's offer, PHG recommended that the Receiver accept the bid because: (i) the financial condition of USFR makes it highly unlikely that the Receivership Estate could secure a buyer in the foreseeable future that is willing to extend a higher offer; (ii) additional financial pressures and operating losses likely will further limit Stanford's exit opportunities; and (iii) Stanford's recovery through a liquidation sale would be severely compromised due to USFR's $7.5 million in secured bank debt and Stanford's inferior debt position. As a result, PHG concluded that the KTBU Acquisition offer represented the highest dollar value available for the Receivership Estate.

Based upon the recommendation of PHG, the Receiver believes that the Receivership Estate will realize the maximum benefit of this investment by accepting this offer and liquidating Stanford's holdings in USFR. Exhibit A (Appendix at 3-7). To this end, the Receiver seeks the Court's approval to complete this sale of investment interests held by Stanford for a total payment of $2 million to the Receivership Estate. The terms of the sale are reflected in material attached as Exhibit B (Appendix at 8-21).

C. Stanford's Holdings in MCB

MCB is a boutique bank based in the U.S. Virgin Islands (the "Virgin Islands") and offering traditional banking and internet services to the communities of St. Thomas, St. John, and St. Croix. Founded in 2006, MCB was created to provide focused, dedicated financial resources to the business and professional community in the Virgin Islands. MCB's single bank branch is located in St. Thomas.

In late 2006, Stanford purchased 39 shares of MCB, constituting an 8.1% ownership stake, for a total of $1,072,500. Since that time, MCB completed a 5 to 1 stock split. As a result, Stanford now holds 195 shares of MCB.

According to PHG, Stanford's investment in MCB is at risk of significant devaluation due to troubles facing the local banking and real estate sectors in the Virgin Islands. Recommendation of PHG as to MCB, attached as Exhibit C (Appendix at 22). Due to their lack of diversification, regional banks like MCB depend heavily on the welfare of their surrounding communities and the local real estate markets. For instance, MCB's loan book is almost entirely related to real property located in the Virgin Islands. *Id*. Sharp declines in property values result in undersecured loans, ultimately leading to a substantial increase in non-performing loans and a corresponding decrease in revenue for the regional banks.

The value of real property in the Virgin Islands has greatly declined over the last 12 months. Taking into account all active, closed, and pending properties, sold listings in the Virgin Islands fell 33.3% from 2008 to 2009, representing an $83.3 million reduction in value. *Id.* Further, the number of new listings increased by approximately 75%, while the median list price fell by 8.7%. *Id.* Supply of property in the Virgin Islands continues to outweigh demand, and pricing and valuations are anticipated to drop further. *Id.*

Because the real estate market in the region plays a substantial role in both the collateral value and stability of MCB's loans, the aforementioned decline in property values has negatively impacted MCB's loan book and resulting cash flow. According to its records, MCB did not hold any non-performing loans in 2008. *Id.* By contrast, in 2009, MCB carried non-performing loans on its books with increasing frequency.[6] *Id.* From June 30, 2009 to December 31, 2009, MCB's non-performing loan balance increased over 700%, from $573,654 to $4,691,284. *Id.* On December 31, 2009, MCB's non-performing loan balance represented 6.6% of MCB's total loans, which is materially higher than the comparable ratio range of 1% to 3% found at large and regional banks in the United States. *Id.* As MCB's non-performing loan balance continues to accumulate, delinquent interest payments will further reduce MCB's revenues, and the need to set aside capital to maintain capital adequacy requirements in anticipation of future defaults will limit MCB's liquidity. *Id.*

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[6] The local economy in the Virgin Islands typically lags the United States' economy. It is thus not surprising that the number of foreclosures and defaulted loans has only recently increased. *Id.*

D. The MCB Offer

Given the difficulties facing MCB, and the associated risk to the value of Stanford's interest, the Receiver engaged PHG to actively market Stanford's holdings in MCB. Working within the constraints of the secondary market, PHG discussed MCB with over 60 potential buyers. Over time, PHG narrowed the focus of its efforts to five potential investors, comprised of four secondary buyers and one strategic investor. In addition to PHG's marketing efforts, MCB's management solicited its 60 shareholders to identify interest in purchasing Stanford's shares.

All of the potential investors contacted by PHG declined to bid, citing MCB's location, financial issues, and the reputational impact of its affiliation with Stanford. In addition, the effort of MCB's management yielded little interest. Ultimately, an existing investor in MCB (the "MCB Investor"), offered to acquire Stanford's holdings in MCB. After extensive negotiations, PHG obtained a final offer of $536,250 from the MCB Investor. Under the terms of the proposed sale, the MCB Investor would fund this amount with a one-time payment to the Receivership Estate at closing.

PHG conducted an analysis of the MCB Investor's offer. Based upon its analysis, PHG recommended that the Receiver accept the MCB Investor's offer because (i) the offer was the highest bid PHG was able to obtain after utilizing extensive marketing efforts; (ii) MCB's troubled loan book and the depressed Virgin Island's real estate market could result in significant devaluation of Stanford's interest; and (iii) the Receiver is unlikely to secure a higher offer in the foreseeable future.

Based upon the recommendation of PHG, the Receiver believes that the Receivership Estate will realize the maximum benefit for its investment in MCB by accepting the pending offer and liquidating Stanford's holdings in MCB. Exhibit C (Appendix at 22).

Consequently, the Receiver requests approval of the Court to complete the sale of its interest in MCB for the payment of $536,250 to the Receivership Estate. The terms of the sale are reflected in material attached as Exhibit D (Appendix at 23-35).

E. Stanford's Holdings in DGSE and Superior

DGSE is a precious metals, rare coin, and jewelry company headquartered in Dallas, Texas. In May 2007, DGSE acquired Superior, a rare coin enterprise based in California. Since its acquisition, Superior has operated as a wholly-owned subsidiary of DGSE. As described below, Stanford holds investments in both DGSE and Superior.

1. Stanford's Holdings in Superior

Superior and Stanford executed a Commercial Loan and Security Agreement on October 13, 2003. Under the terms of this agreement, Stanford agreed to provide an initial $7.5 million line of credit to Superior.[7] On March 31, 2005, the parties agreed to increase Superior's credit line to $10 million. In addition, Stanford purchased $2.5 million of Series E preferred stock in Superior through the assumption, conversion and cancellation of $2.5 million of Superior's debt under the credit line. The parties further increased the line of credit to $10.85 million on July 21, 2005.

As a result of the aforementioned transactions, Stanford was both Superior's primary lender and its controlling stockholder when DGSE acquired Superior in May 2007. Superior owed Stanford a total of $8,393,340 on the credit line at that time. As a condition of DGSE's acquisition, Stanford agreed to provide two additional credit facilities to Superior: (i) a revolving credit line of $5.5 million; and (ii) an unrestricted term credit facility in the amount of

[7] Stanford Financial Group ("SFG") provided this original line of credit to Superior. However, SFG later assigned the credit line, in its entirety, to SIBL.

$6 million.[8] Stanford was obligated to make the $6 million credit line available to Superior without regard to collateral coverage.

Superior's indebtedness to Stanford increased over the next several years. As a result, Stanford currently holds secured and unsecured loans outstanding to Superior in the total amount of $10,550,000, plus accrued interest.

2. Stanford's Holdings in DGSE

Stanford also acquired an equity interest in DGSE in connection with DGSE's acquisition of Superior. As a result of the acquisition, Stanford received 422,817 warrants in DGSE with an exercise price of $1.89. Additionally, Stanford holds 3,376,361 shares of common stock in DGSE. Stanford's interests represent approximately 30% of DGSE's issued and outstanding shares of common stock.

F. Performance of Superior

Superior currently is facing significant operational and financial troubles that threaten its ability to continue as a going concern. Superior has consistently generated substantial operating losses for the last eight years. *See* Recommendation of PHG as to DGSE, attached as Exhibit E (Appendix at 36-37). During the five-year period prior to its acquisition by DGSE, Superior reported operating losses of almost $14 million. *Id.* Since that time, Superior has incurred additional losses of over $6 million. *Id.* Between 2006 and 2008, Superior's revenues declined from approximately $46.3 million to $15.8 million, resulting in the discontinuation of its auction segment by DGSE. *Id.*

In January and February of 2009, Superior requested additional draws on its credit line. At that time, Superior's credit line had at least $1 million remaining. However, Stanford did not fund Superior's requests. On September 30, 2009, Superior's balance sheet reflected

[8] Both of Superior's credit lines do not become due until June 2011.

tangible assets of less than $500,000 and total liabilities of, at least, $14 million, including secured claims of over $4 million by DGSE. *Id.* On the same date, Superior had negative shareholders' equity of $10,869,208.49. *Id.* For 2009, final revenue calculations for Superior are anticipated to be less than $8 million, and Superior's revenues are expected to decline further in 2010. *Id.*

As the parent company, DGSE is not a guarantor of the outstanding balances related to Superior's credit facilities. Rather, DGSE is a secured creditor itself, based upon several advances made to Superior since June 2007. Although it has funded Superior's losses in the past, DGSE has represented to PHG that it is unwilling to provide additional credit to Superior. *Id.*

G. The DGSE Offer

Due to the performance of Superior, the Receiver engaged PHG to actively market Stanford's holdings in DGSE and Superior. However, Stanford's exit opportunities for these assets are extremely limited for several reasons. DGSE's common stock is thinly-traded on the AMEX, holding an average trading volume over the last 3 months of approximately 17,000 traded shares per day.[9] *Id.* As a result, Stanford's investment in DGSE is effectively illiquid, and an exit through the public marketplace is not an option for Stanford. *Id.* PHG thus had to focus its marketing efforts on selected private equity and secondary firms.

Second, DGSE's management has taken a highly-restrictive stance with respect to the transfer of Stanford's interests in DGSE and Superior. Stanford's equity positions are insufficient to unilaterally affect DGSE's operations, and are subject to various contractual conditions with DGSE's largest affiliated stockholder. *Id.* In the absence of an agreement with

[9] The 52-week trading range of DGSE's common stock is between $0.76 and $2.58 per share. As of April 5, 2010, DGSE's common stock traded at $2.55 per share.

the Receiver, DGSE's management has informed PHG that it may assert claims of fraud and misrepresentation against Stanford, as Superior's primary lender. *Id.* In doing so, DGSE would seek, among other things, the return of all equity obtained by Stanford in DGSE as a result of the acquisition of Superior. *Id.* DGSE also contends that a sale of Stanford's holdings in DGSE to a third party would trigger change of control covenants in several agreements related to the prior transactions, resulting in material dilution to any outside shareholder and imposition of restrictive corporate governance provisions. *Id.* DGSE therefore informed PHG that it would take steps to block any unilateral transfer of interest to a third party. *Id.*

With respect to Superior, DGSE has indicated that it simply will discontinue the balance of Superior's business if a transaction with the Receiver is not consummated. *Id.* Thus, barring agreement with the Receiver, DGSE likely will place Superior in bankruptcy and liquidate its assets. Superior's outstanding liabilities far outweigh the collateral value of its assets, and a large portion of Stanford's investment is in the form of unsecured loans. *Id.* As a result, Stanford's investment is likely to be rendered worthless in the event of liquidation. *Id.*

Despite DGSE's restrictive position, PHG utilized substantial marketing efforts in an attempt to locate a suitable buyer for Stanford's interests in DGSE and Superior that would be agreeable to all parties. PHG initiated conversations with three private equity firms and nine secondary firms. In addition, PHG worked with an industry consultant to determine whether any strategic investors might be interested in purchasing Stanford's investments. None of the potential purchasers contacted by PHG expressed an interest in acquiring Stanford's investments.

DGSE also retained a US-based investment bank to explore additional options related to the purchase of Stanford's equity interests and the acquisition of Stanford's debt. The investment bank discussed the opportunity to purchase Stanford's investments with at least 15 financial institutions. However, like the potential investors contacted by PHG, none of these institutions were willing to purchase Stanford's interests in DGSE and Superior, citing the performance of Superior and the unsecured nature of Stanford's debt.

Given lack of interest in the investment community, PHG and DGSE's management began to negotiate the terms of a buyout by which DGSE would purchase the total amount of Stanford's interest. After a series of negotiations, DGSE proposed to acquire Stanford's interests in both DGSE and Superior for $3.6 million, which would be funded by a one-time payment to the Receivership Estate at closing.

PHG conducted an analysis of DGSE's offer and recommended that the Receiver accept the offer because: (i) the offer from DGSE represented the highest price PHG was able to obtain through its marketing efforts; (ii) DGSE is the only potential buyer with whom a transaction does not have potential adverse consequences to both the debt and equity component of Stanford's interest; and (iii) the Receiver is unlikely to secure a higher offer in the foreseeable future given the performance of the assets. *Id.* As a result, PHG concluded that the offer from DGSE represented the highest dollar value available to the Receivership Estate. *Id.*

Based upon the recommendation of PHG, the Receiver believes that the Receivership Estate will realize the maximum benefit of these investments by accepting the pending offer from DGSE and liquidating Stanford's holdings in DGSE and Superior. *Id.* Consequently, the Receiver seeks the Court's approval to complete the sale of Stanford's investment interests in DGSE and Superior for a total payment of $3.6 million to the Receivership Estate.[10] The terms of the sale are reflected in material attached as Exhibit F (Appendix at 38-51) and Exhibit G (Appendix at 52-58).

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[10] If the proposed sale has not closed by May 14, 2010, DGSE may terminate the Purchase and Sale Agreement.

IV. CONCLUSION AND PRAYER FOR RELIEF

After significant consultation with his team and PHG, the Receiver believes that the liquidation and sale of Stanford's interests in USFR, MCB, DGSE, and Superior would inure maximum benefit to the Receivership Estate. As a result, the Receiver respectfully requests that the Court approve the respective sales of these holdings pursuant to the terms contained in Exhibit B (Appendix at 8-21), Exhibit D (Appendix at 23-35), Exhibit F (Appendix at 38-51) and Exhibit G (Appendix at 52-58), and grant him any such other relief that the Court may deem just and equitable.

Dated: April 7, 2010.

Respectfully submitted,

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ATTORNEYS FOR RECEIVER RALPH S. JANVEY

CERTIFICATE OF CONFERENCE

Counsel for the Receiver conferred with David B. Reece, counsel for the SEC, who stated that the SEC does not oppose the motion and the relief sought herein. Counsel for the Receiver conferred with John Little, Court-appointed Examiner, who stated that he is unopposed to this motion and the relief sought herein. Counsel for the Receiver attempted to confer with Manuel P. Lena, Jr., counsel for U.S.D.O.J. (IRS), but received no response. Counsel for the Receiver attempted to confer with David Finn, counsel for James Davis, but received no response. Counsel for the Receiver attempted to confer with Jack Patrick, counsel for the DOJ (Fraud Division), but received no response. Counsel for the Receiver attempted to confer with Lee Shidlofsky, counsel for Gilberto Lopez, but received no response. Counsel for the Receiver attempted to confer with Gregg Anderson, counsel for Mark Kuhrt, but received no response. Counsel for the Receiver attempted to confer with Joe Kendall, counsel for Susan Stanford, but received no response. Counsel for the Receiver conferred with Julie Biermacher, counsel for Trustmark National Bank, who stated that her client is not opposed to this motion and the relief sought herein. Counsel for the Receiver conferred with Jason Brookner, counsel for HP Financial Services Venezuela C.C.A., who stated that his client has no position on this motion and the relief sought herein. Counsel for the Receiver attempted to confer with Jeff Tillotson, counsel for Laura Pendergest-Holt, but received no response. Counsel for the Receiver conferred with Ruth Schuster, counsel for R. Allen Stanford, who stated that her client opposes the motion and the relief sought herein. Therefore, this motion is opposed.

/ s / Kevin M. Sadler
Kevin M. Sadler

CERTIFICATE OF SERVICE

On April 7, 2010, I electronically submitted the foregoing document with the clerk of the court of the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. I hereby certify that I have served all counsel and/or pro se parties of record electronically or by another manner authorized by Federal Rule of Civil Procedure 5(b)(2).

/s/ Kevin Sadler
Kevin Sadler