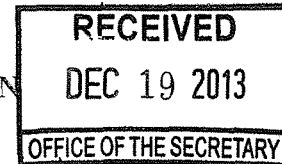


UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

**HARD COPY**



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In the Matter of )  
 )  
 )

LARRY C. GROSSMAN and GREGORY )  
J. ADAMS, )

Respondents. )  
 )  
 )  
\_\_\_\_\_

ADMINISTRATIVE PROCEEDING  
FILE NO. 3-15617

**RESPONDENT GREGORY J. ADAMS'**  
**ANSWER AND AFFIRMATIVE DEFENSES**

COMES NOW Respondent Gregory J. Adams ("Mr. Adams"), by and through his undersigned counsel and pursuant to Rule 220 of the Commission's Rules of Practice, and hereby answers the Division of Enforcement's (the "Division") Order Instituting Administrative and Cease-and-Desist Proceedings (the "OIP"). In furtherance of the same, Mr. Adams respectfully states as follows in response to the OIP's allegations:

**A. RESPONDENTS**

1. Mr. Adams admits the allegations in Paragraph 1, except he does not know whether Larry Grossman's ("Mr. Grossman") securities licenses lapsed prior to the conduct at issue.

2. Mr. Adams admits the allegations in Paragraph 2.

**B. OTHER RELEVANT ENTITIES AND INDIVIDUALS**

3. Mr. Adams admits that Sovereign International Asset Management ("Sovereign") was owned, managed, and controlled solely by either Mr. Grossman or Mr. Adams. Mr. Adams also admits that on June 28, 2012, Sovereign filed for Chapter 7 bankruptcy

in the United States Bankruptcy Court for the Middle District of Florida and that Sovereign was administratively dissolved by the State of Florida at the end of September 2012. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 3, and therefore denies the same.

4. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of whether Sovereign International Asset Management, LLC's ("SIAM, LLC") was formed in April 1999, and therefore denies the same. Mr. Adams admits the remaining allegations in Paragraph 4.

5. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of whether Anchor Holdings, LLC's (Florida) ("AH Florida") was formed in Florida in 2005, and therefore denies the same. Mr. Adams admits the remaining allegations in Paragraph 5.

6. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of whether Anchor Holdings, LLC's (Nevis) ("AH Nevis") was formed in September 2004, and therefore denies the same. Mr. Adams admits the remaining allegations in Paragraph 6.

7. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 7, and therefore denies the same.

8. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 8, and therefore denies the same.

9. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 9, and therefore denies the same.

C. BACKGROUND

1. Sovereign's Operations

10. Mr. Adams admits that he purchased Sovereign from Mr. Grossman in October 2008, that Sovereign employed a small staff of less than ten people, and that no one at Sovereign was registered representative with a broker-dealer while Mr. Adams owned Sovereign. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 10, and therefore denies the same.

11. Mr. Adams denies that he and Sovereign, while it was under his control, advised their clients to invest almost exclusively in funds and accounts managed or controlled by Nikolai Simon Battoo. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 11, and therefore denies the same.

12. The allegations in Paragraph 12 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 12, and therefore denies the same.

2. Grossman Forms AH Florida

13. Mr. Adams admits that Sovereign, through Mr. Adams, instructed clients to transfer their money to AH Florida's account at a bank in Florida. Mr. Adams denies that Sovereign gave clients a document called "Anchor Hedge Fund Application for Shares," in which AH Florida identified as an intermediary, and also included a wire transfer form authorizing a transfer to AH Florida's account. Mr. Adams also denies that he ever told clients, either orally or in writing, that Sovereign would pool client funds into a bank account in the

name of AH Florida. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 13, and therefore denies the same.

14. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 14 relating to Mr. Grossman, and therefore denies the same. Mr. Adams admits that after pooling client funds in AH Florida's bank account, Mr. Adams transferred the funds offshore to PIWM in the name of AH Nevis. Mr. Adams is without knowledge or information sufficient to form a belief as to whether clients believed that the AH Florida account was an account belonging to Anchor Hedge Fund, and therefore denies the same. Mr. Adams denies the remaining allegations set forth in Paragraph 14.

15. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 15, and therefore denies the same.

### **3. Grossman Sells Sovereign to Adams**

16. Mr. Adams admits that on October 1, 2008, Mr. Grossman sold Sovereign to Mr. Adams. Mr. Adams also admits that on October 14, 2008, Mr. Adams emailed a letter signed by Mr. Grossman to Sovereign clients. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 16, and therefore denies the same.

17. Mr. Adams admits that the letter introduced Mr. Adams and informed clients that Mr. Adams had been named Sovereign's President and Chief Investment Officer. Mr. Adams also admits that the letter stated that Mr. Grossman would remain Managing Director of SIPS, which was "only a few doors from [Adam's] office." Mr. Adams is without knowledge

or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 17, and therefore denies the same.

18. Mr. Adams admits the allegations set forth in Paragraph 18.

**D. GROSSMAN AND ADAMS' MISSTATEMENTS AND OMISSIONS TO INVESTORS**

**1. Misstatements and Omissions About Compensation**

19. The allegations in Paragraph 19 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 19, and therefore denies the same.

20. Mr. Adams denies that from October 2008 until August 2010, Mr. Adams advised Sovereign's clients to invest or remain invested almost exclusively in the Battoo Funds and PIWM. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 20, and therefore denies the same.

21. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 21, and therefore denies the same.

**a. The Referral and Consulting Agreements**

22. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 22, and therefore denies the same.

23. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 23 relating to Mr. Grossman, and therefore denies the same. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of whether the first three of the agreements referred to in Paragraph 23 triggered referral fees to Sovereign, paid to SIAM LLC, while the fourth agreement triggered consulting

fees paid directly to Mr. Grossman. Mr. Adams admits the remaining allegations set forth in Paragraph 23 relating to Mr. Adams.

24. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 24, and therefore denies the same.

25. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 25, and therefore denies the same.

26. Mr. Adams admits that after the sale of Sovereign to Mr. Adams, and continuing through 2010, Battoo continued to pay Sovereign through SIAM, LLC, now owned by Mr. Adams. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 26, and therefore denies the same.

**b. Grossman and Adams' Misrepresentations and Omissions  
Concerning the Referral and Consulting Agreements**

27. Mr. Adams denies that he misrepresented compensation he received from Battoo related entities and thus failed to adequately disclose his conflicts of interest to Sovereign client's. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 27, and therefore denies the same.

28. Mr. Adams denies that Sovereign did not timely provide the Form ADV Part II to all its clients as required under Advisers Act Rule 204-3 and its clients did not otherwise consent to delivery through a website. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 28, and therefore denies the same.

29. Mr. Adams admits that Sovereign disclosed in its 2009 Form ADV Part 1, under "Compensation Arrangements," its referral fees. Mr. Adams denies the remaining allegations set forth in Paragraph 29.

30. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 30, and therefore denies the same.

31. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 31, and therefore denies the same.

**Misrepresentations and Omissions About Compensation  
During Grossman's Ownership**

32. The allegations in Paragraph 32 and its sub-sections relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 32, and therefore denies the same.

**Misrepresentations and Omissions About Compensation  
During Adams' Ownership**

33. Mr. Adams denies that the disclosures set forth in the sub-sections of Paragraph 33 were misleading.

a. Mr. Adams admits that Sovereign's 2009 IAA stated that "[t]he Advisor [Sovereign] may receive performance-based compensation from certain investment companies." Mr. Adams denies the remaining allegations set forth in Sub-Paragraph 33(a).

b. Mr. Adams admits that Sovereign's 2009 IAA also stated that Advisor [Sovereign] will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor. Mr. Adams denies the remaining allegations set forth in Sub-Paragraph 33(b).

c. Mr. Adams admits that Sovereign's 2009 and 2010 Forms ADV Part II (and brochures) stated that "Sovereign may receive incentives or subscription fees from certain

investment companies.” Mr. Adams denies the remaining allegations set forth in Sub-Paragraph 33(c).

d. Mr. Adams admits that Sovereign’s 2009 and 2010 Forms ADV Part II (and brochures) further stated that “Sovereign will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Sovereign.” Mr. Adams denies the remaining allegations set forth in Sub-Paragraph 33(d).

e. Mr. Adams denies that the disclosures set forth in Sub-Paragraph 33(e) were misleading. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Sub-Paragraph 33(e), and therefore denies the same.

f. Mr. Adams denies that the disclosures set forth in Sub-Paragraph 33(f) were misleading. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Sub-Paragraph 33(f), and therefore denies the same.

**2. Grossman and Adams Misled Clients to Invest In Anchor Hedge Funds**

34. Mr. Adams denies that he advised clients to retain their investments in Anchor Hedge Fund in or around October 2008, and further denies that he ever knowingly or recklessly misrepresented any facts. The remaining allegations in Paragraph 34 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 34, and therefore denies the same.



a. Cross Portfolio Liability

35. Mr. Adams denies that, after purchasing Sovereign, he advised clients to retain their investments. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 35, and therefore denies the same.

b. Anchor Hedge Fund Class A Did Not Invest in Diversified, Independently-Administered, and Audited Funds

36. The allegations in Paragraph 36 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 36, and therefore denies the same.

37. The allegations in Paragraph 37 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 37, and therefore denies the same.

38. The allegations in Paragraph 38 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 38, and therefore denies the same.

39. Mr. Adams denies that he orally told clients in November 2008 that Anchor A was extremely safe and a “good place” to be. The remaining allegations in Paragraph 39 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a

belief as to the truth of the remaining allegations set forth in Paragraph 39, and therefore denies the same.

40. The allegations in Paragraph 40 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 40, and therefore denies the same.

41. Mr. Adams denies that Battoo told Mr. Adams that the audited financial statements were confidential and proprietary. The remaining allegations in Paragraph 41 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 41, and therefore denies the same.

42. The allegations in Paragraph 42 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 42, and therefore denies the same.

43. Mr. Adams denies that he continued to advise clients to retain their investments in Anchor A, even after (1) the suspension called into question Battoo's previous representation to Mr. Adams that only 2% of the fund had exposure to the Madoff Ponzi scheme and (2) Battoo refused to file proof of claim or provide Mr. Adams with supporting documentation of the fund's investments. The remaining allegations in Paragraph 43 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 43, and therefore denies the same.

c. **Liquidity Issues with and Suspension of Anchor Fund Class C**

44. Mr. Adams admits that shortly before the Madoff scandal erupted in the press, Anchor Hedge Fund suspended redemptions of Anchor Fund Class C. Mr. Adams also admits that Anchor Hedge Fund sent a letter to its Class C shareholders, notifying them that it was suspending redemptions of Anchor Fund Class C because it was switching its portfolio from one bank to another. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 44, and therefore denies the same.

45. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 45, and therefore denies the same.

46. Mr. Adams denies that after Anchor Hedge Fund suspended redemptions of Anchor C shares, Mr. Adams did not question the reason for the suspension. Mr. Adams also denies that he recommended the exchanging Class C shares for PIWM shares to Sovereign's clients without conducting sufficient due diligence concerning PIWM. Mr. Adams admits the remaining allegations set forth in Paragraph 46.

3. **Adams' Misstatements and Omissions Regarding the PIWM Swap**

47. Mr. Adams admits that Battoo proposed the swap shortly after Anchor Hedge Fund suspended redemptions of Class C shares. Mr. Adams also admits that Battoo visited Sovereign's offices and met with Mr. Adams. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 47, and therefore denies the same.

48. Mr. Adams admits the allegations set forth in Paragraph 48.

49. Mr. Adams denies the allegations set forth in Paragraph 49.

50. Mr. Adams denies that rather than conduct independent due diligence about PIWM's investments, Mr. Adams simply requested more information from Battoo, which Battoo refused to provide. Mr. Adams also denies that he received referral fees from PIWM. Mr. Adams admits that he signed the swap agreement and recommended the swap to Sovereign's clients. Mr. Adams also admits that he recommended that Sovereign clients swap their Anchor Class C shares for PIWM managed account interests using an account value as of August 31, 2008. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 50, and therefore denies the same.

51. Mr. Adams admits that in November 2008 he further represented to Sovereign clients that the suspension of Anchor C was due to Société Générale's failure to process the transfer of the custodial relationship for Anchor Class C and that the resulting interests in PIWM were subject to an 18 month lock-up. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 51, and thereof denies the same.

52. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the allegations set forth in Paragraph 52, and thereof denies the same.

53. Mr. Adams denies the allegations set forth in Paragraph 53.

54. Mr. Adams denies that Adams continued to advise clients to retain their investments in the Battoo Funds and PIWM in spite of conflicting responses from Battoo. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 54, and thereof denies the same.

55. Mr. Adams admits that Battoo refused to permit withdrawals from PIWM, in part because of a dispute over the lock-up period and that Battoo publicly claimed to investors

that losses incurred in the MF Global bankruptcy triggered the refusal to permit withdrawals from PIWM. Mr. Adams is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 55, and thereof denies the same.

E. GROSSMAN AND ADAMS IGNORED RED FLAGS

56. Mr. Adams denies that he failed adequately to research or investigate a number of red flags about Battoo and his funds. The remaining allegations in Paragraph 56 relate to a Respondent other than Mr. Adams, and so do not require a response from Mr. Adams. Notwithstanding, Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 56, and therefore denies the same.

57. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the allegations set forth in Paragraph 57, and therefore denies the same.

58. Mr. Adams admits that the last independent auditor report Sovereign received from Anchor Hedge Fund for Anchor Class C was for the year ended December 31, 2006 and for Anchor Class A and B was for the year ended December 31, 2007. Mr. Adams denies that he knew Battoo ceased providing to investors independently-audited financial statements regarding the Battoo Funds or that Mr. Adams continued to recommend Battoo's funds to his clients. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 58, and therefore denies the same.

59. Mr. Adams denies he knew asset verification reports came from parties related to Battoo, not from independent third parties or that he touted the performance of the Battoo Funds to his clients. Mr. Adams admits that he failed to investigate the figures Battoo

provided to him. Mr. Adams is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations set forth in Paragraph 59, and therefore denies the same.

60. Mr. Adams denies the allegations set forth in Paragraph 60.

**F. VIOLATIONS**

61. The allegations set forth in Paragraph 61 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

62. The allegations set forth in Paragraph 62 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

63. The allegations set forth in Paragraph 63 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

64. The allegations set forth in Paragraph 64 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

65. The allegations set forth in Paragraph 65 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

66. The allegations set forth in Paragraph 66 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

67. The allegations set forth in Paragraph 67 are legal conclusions that do not require a response, and in the alternative Mr. Adams denies the same.

**AFFIRMATIVE DEFENSES**

The foregoing matters do not support a claim against Mr. Adams. In addition, the following affirmative defenses nullify any potential liability.

### **First Affirmative Defense**

There is no basis to support a cease and desist order against either Mr. Adams. There is no risk of a future violation of the federal securities laws to warrant such an imposition. Mr. Adams has no record of any prior violations and there is no reason to believe that Mr. Adams would ever commit any violation of the securities laws in the future. No remedial purpose exists that would be served by the imposition of a cease-and-desist order against Mr. Adams.

### **Second Affirmative Defense**

The Commission has failed to state a claim upon which relief may be granted.

### **Third Affirmative Defense**

Mr. Adams has not misled any Sovereign investors at any time.

### **Fourth Affirmative Defense**

Mr. Adams has not made any material misstatements or omissions, in writing or otherwise.

### **Fifth Affirmative Defense**


Mr. Adams reserves the right to assert such further affirmative defenses as may be determined to be applicable during discovery.

**WHEREFORE**, Respondent Gregory J. Adams respectfully requests that all relief the Securities and Exchange Commission has requested in the OIP be denied in its entirety.

Dated: December 18, 2013  
Coral Gables, Florida

Respectfully submitted,

**Hunter Taubman Weiss LLP**



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