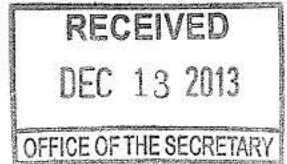


UNITED STATES OF AMERICA  
Before The  
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING  
File No. 3-15617

**In the Matter of**

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

**Respondents.**

**RESPONDENT LARRY C. GROSSMAN'S  
ANSWER AND AFFIRMATIVE DEFENSES**

Respondent, Larry C. Grossman ("Grossman"), by and through his undersigned attorneys, hereby answers the Securities and Exchange Commission's ("SEC" or "Commission") Order Instituting Administrative and Cease and Desist Proceedings (the "Order") and asserts his affirmative defenses as follows:

**RESPONDENTS**

1. Deny that Grossman's securities licenses had lapsed prior to the conduct at issue, because Grossman was a registered investment advisor. Admit the remaining allegations.
2. Admit that Gregory J. Adams ("Adams") brought Sovereign International Asset Management, Inc. ("Sovereign"), along with other related entities from Grossman in October 2008. Without knowledge regarding the remaining allegations therefore denied.

**OTHER RELEVANT ENTITIES AND INDIVIDUALS**

3. Admit that at the time Grossman owned Sovereign, a Florida corporation with its principal place of business in Palm Harbor, Florida, and up until the sale of Sovereign in October 2008, Grossman owned, managed and controlled Sovereign. Admit that Grossman sold Sovereign to Adams in October 2008. Without knowledge as to the remaining allegations therefore denied.
4. Admit that before Grossman sold Sovereign to Adams in October 2008 that Sovereign International Asset Management, LLC ("SIAM, LLC") was a limited liability

company registered in Anguilla. Admit that Grossman sold SIAM, LLC to Adams in conjunction with the sale of Sovereign in October 2008. Without knowledge as to the remaining allegations therefore denied.

5. Admit that before Grossman sold Sovereign to Adams in October 2008, Anchor Holdings, LLC (Florida) (“AH Florida”) was a limited liability company registered in Florida. Admit that Grossman sold AH Florida to Adams in conjunction with the sale of Sovereign in October 2008. Without knowledge regarding the remaining allegations therefore denied.

6. Admit that before Grossman sold Sovereign to Adams in October 2008, Anchor Holdings, LLC (Nevis) was a company formed and registered in Nevis. Admit that Grossman sold AH Nevis to Adams in conjunction with the sale of Sovereign in October 2008. Without knowledge regarding the remaining allegations therefore denied.

7. Admit that Nikolai Simon Battoo (“Battoo”) was named as a defendant in a fraud action the Commission filed on September 6, 2012, SEC v. Nikolai S. Battoo, et al., 12-cv-7125, N.D. Ill. Without knowledge as to the remaining allegations therefore denied.

8. Admit that before Grossman sold Sovereign to Adams in October 2008, Anchor Hedge Fund Limited (“Anchor Hedge Fund”) was incorporated in the British Virgin Islands in September 2002. Admit that Grossman was an international consultant to Anchor Hedge Fund which was disclosed to the SEC in connection with the SEC’s 2004-2005 Audit of Sovereign.

9. Admit that before Grossman sold Sovereign to Adams in October 2008, Anchor Hedge Fund Management Limited (“AHF Management”) was the investment manager of Anchor Hedge Fund. Without knowledge as to the remaining allegations therefore denied.

## **BACKGROUND**

### **Sovereign’s Operations**

10. Admit that before Grossman sold Sovereign to Adams in October 2008, Sovereign was a registered investment adviser that consisted of a small organization, employing a small staff of less than ten people, run by Grossman, Sovereign’s sole control person, until Grossman sold it to Adams in October 2008. Without knowledge as to the remaining allegations therefore denied.

11. Admit that before Grossman sold Sovereign to Adams in October 2008. Without knowledge as to whether that statement that Sovereign “use[d] an extensive investment selection process that [was] not only qualitative but incorporate[d]” a significant due diligence process as

well” was specifically identified in Sovereign’s promotional materials, therefore denied. Denied as to the remaining allegations directed toward Grossman or Sovereign during the period in which Grossman owned Sovereign. Without knowledge as to the allegations directed toward Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

12. Deny.

#### **Grossman Forms AH Florida**

13. Admit that Grossman formed AH Florida and that AH Florida had the same name as AH Nevis. Admit that before the sale of Sovereign to Adams in October 2008, Sovereign gave clients a document titled “Anchor Hedge Fund Application for Shares” in which AH Florida was identified as an intermediary, and also included a wire transfer form authorizing a transfer to AH Florida’s account that Sovereign disclosed to the SEC in response to the Securities and Exchange Commission Southeast Regional Office (the “Staffs”) audit. Denied as to the remaining allegations directed to Grossman. Without knowledge as to allegations with respect to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

14. Admit that before the sale of Sovereign to Adams in October 2008, Sovereign’s clients’ funds seeking to invest in the Battoo Funds temporarily resided in the AH Florida account before being sent to the Battoo Funds and PIWM that was disclosed to the SEC during the Staff’s audit of Sovereign. Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

15. Deny.

#### **Grossman Sells Sovereign to Adams**

16. Admit that Grossman sold Sovereign to Adams on October 1, 2008. Without knowledge as to regarding the remaining allegations and therefore denied.

17. Without knowledge and therefore denied.

18. Grossman advised the SEC via written notification that he sold Sovereign to Adams. Without knowledge as to statements in Sovereign’s ADV after the sale of Sovereign to Adams and therefore denied. Denied as to the remaining allegations.

**GROSSMAN AND ADAM'S ALLEGED MISSTATEMENTS  
AND OMISSIONS TO INVESTORS.**

**Alleged Misstatements and Omissions about Compensation**

19. Admit that Grossman met Battoo in approximately 2002. Without knowledge as to the remaining allegations therefore denied.

20. Deny all allegations directed to Grossman and Sovereign before the sale of Sovereign to Adams in October 2008. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

21. Deny that before the sale of Sovereign to Adams in October 2008, Sovereign's clients invested primarily in Anchor Funds and PIWM. Admit that before the sale of Sovereign to Adams in October 2008, the Anchor Funds were fund of funds that as a result of such structure had multiple layers of fees. Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

**The Referral and Consulting Agreements**

22. Admit that Grossman signed the Anchor Referral Agreement, the FuturesOne Diversified Fund, Limited Referral Agreement (FuturesOne Referral Agreement), PIWM Referral Agreement on behalf of SIAM, LLC and that Grossman signed the International Consulting Agreement with Anchor Hedge Fund Management Limited ("International Consultant Agreement") all of which were provided to the SEC in connection with the 2004 Audit of Sovereign. Denied as to the remaining allegations.

23. Admit that during Grossman's ownership of Sovereign, the Anchor Referral Agreement, the FuturesOne Referral Agreement and PIWM Referral Agreement paid fees to SIAM, LLC. Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

24. Admit that during Grossman's ownership of Sovereign, Exhibit "A" of the Anchor Referral Agreement states that a 1% Sales Load (Discretionary), is paid to SIAM, LLC for Anchor Hedge Fund Ltd., Class A or Class B or a 2% Sales Load (Discretionary), paid to Referral Agent for Anchor Hedge Fund Ltd., Class E or Class I. Admit that Exhibit "A" of the FuturesOne Referral Agreement states that a 2% Sales Load (Discretionary) and 50% of

Investment Manager Fees are to be paid to SIAM, LLC for FuturesOne Diversified Fund Ltd., Class A or FuturesOne Diversified Fund, Ltd., Class B. Admit that the PIWM Referral Agreement at Exhibit "A" agreed to pay SIAM, LLC 50% of (1% - 2% annual fee for Private International Wealth Management. Admit that the International Consultant Agreement states that SIAM, LLC, the International Consultant will be paid a quarterly advisory fee by Anchor Hedge Fund Management Limited at a rate to be agreed between Anchor Hedge Fund Management Limited and SIAM, LLC of 50% of the Management fee 1% per annum of the Net Assets of the Fund plus a Performance related fee of 50% of the 10% of new net profits (as defined in the Primate Placement Memorandum). Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

25. Admit that during Grossman's ownership of Sovereign, there was a fourth referral agreement, not in writing, to which SIAM, LLC would receive the initial sales loads of certain funds. Denied as to the remaining allegations.

26. Admit that during Grossman's ownership of Sovereign, SIAM, LLC, was paid under the agreements referenced in Paragraphs 22 and 25. Admit that payment of the fees was made to SIAM, LLC'S account in Denmark. Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

**Grossman and Adam's Alleged Misrepresentations and Omissions**  
**Concerning the Referral and Consulting Agreements**

27. Deny the allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

28. Admit that Sovereign's Form ADV Part II (dated March 26, 2008) disclosed its compensation pursuant to the 2004 Audit recommendations. Deny the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

29. Deny that Sovereign's ADV was misleading before Grossman's sale of Sovereign to Adams. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

30. Deny.

31. Admit that Sovereign revised its IAA to disclose that Sovereign “may receive performance-based compensation from certain investment companies” in response to the 2004 Audit recommendations. Without knowledge as to when the revision initially occurred. Denied as to the remaining allegations.

**Alleged Misrepresentations and Omissions about Compensation  
During Grossman’s Ownership**

32. Deny all allegations including subparts (a)-(g).

**Alleged Misrepresentations and Omissions about Compensation  
During Adam’s Ownership**

33. Without knowledge and therefore denied.

**Alleged Grossman and Adams Misleading Clients to Invest in Anchor Hedge Funds**

34. Admit that before he sold Sovereign to Adams in 2008, Grossman recommended Anchor Hedge Fund Class A, C and E. Without knowledge as to whether he recommended Anchor Hedge Fund Class B. Denied as to the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

**Cross Portfolio Liability**

35. Deny. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

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

36. Deny that from at least 2005 until October 2008, Grossman recommended Anchor Class A as a safe fund that invested in a diversified selection of hedge funds and would deliver expected returns in all market conditions. The Anchor A June 2005 Private Placement Memorandum speaks for itself with regards to the quoted language.

37. Without knowledge as to the information regarding Battoo and the Battoo Funds that were the result of the SEC fraud investigation into Battoo and Battoo Funds and therefore denied. The Anchor A June 2005 Private Placement Memorandum speaks for itself with respect

to the quoted language and any administration by Folio Administrators, Ltd. Deny the remaining allegations.

38. Admit that Grossman provided written materials to Sovereign clients, including PowerPoint presentations before Grossman sold Sovereign to Adams in October 2008. Without knowledge regarding the remaining allegations therefore denied.

39. Deny allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and therefore denied.

40. Without knowledge as to the information regarding Battoo and the Battoo Funds that was discovered as a result of the SEC fraud investigation into Battoo and therefore denied.

41. Admit that Grossman knew that the last independent auditor report Sovereign received for Anchor Fund Class A, before the sale of Sovereign to Adams in October 2008, was from Deloitte for the year ending December 31, 2007. Deny the remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

42. The December 22, 2008, letter speaks for itself. Admit that Battoo misrepresented Anchor Fund Class A's holdings. Without knowledge as to the remaining allegations and therefore denied.

43. Deny allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

#### **Liquidity Issues with and Suspension of Anchor Fund Class C**

44. Without knowledge and therefore denied.

45. Deny.

46. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

**Adam's Alleged Misstatements and Omissions Regarding the PIWM Swap**

47. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

48. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

49. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

50. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

51. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

52. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

53. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

54. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

55. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

**GROSSMAN AND ADAMS ALLEGED IGNORING OF RED FLAGS**

56. Deny the allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

57. Deny the allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.



58. The Anchor Hedge Fund Private Placement Memoranda with regards to audited financial reports speaks for itself. Without knowledge as to the dates of the independent auditor reports that were provided to Sovereign for Anchor Hedge Fund, Class A, B and C and therefore denied. Deny remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

59. Without knowledge as to the term “asset verification reports” that purportedly appear in the Anchor Hedge Fund Private Placement Memoranda and therefore denied. Grossman is without knowledge as to the remaining allegations regarding “asset verification reports” as used herein and therefore deny such allegations. Deny remaining allegations directed to Grossman. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

60. Without knowledge as to the allegations directed to Adams and Sovereign after the sale of Sovereign to Adams in October 2008 and therefore denied.

#### **VIOLATIONS**

61. Deny.

62. Deny.

63. Deny.

64. Deny.

65. Deny.

66. Deny.

67. Deny.

WHEREFORE, Grossman requests that the SEC’s claims be denied.

**FIRST AFFIRMATIVE DEFENSE**  
**(Statute of Limitations)**

The SEC's claims are barred by the statute of limitations.

**SECOND AFFIRMATIVE DEFENSE**  
**(Laches)**

As early as 2004, the SEC Southeast Regional Office in Miami, Florida (the "Staff") audited Sovereign (2004 Audit). In response to the 2004 Audit, Sovereign provided the Staff with information and documentation relating to: (i) Grossman's due diligence into Battoo and the Battoo Funds; (ii) the Referral Agreements and International Consulting Agreement, Grossman's role as an International Consultant; (iii) Sovereign's IAA agreements; (iv) Sovereign's ADV's; (v) Sovereign's disclosure of compensation; (vi) financial statements, and (vii) Sovereign's policies and procedures. After review of the Sovereign information and documentation, the Staff issued a "Request for Correction Action" identifying Sovereign's perceived deficiencies and/or violations of law, including disclosure of compensation. The Staff also recommended how Sovereign could correct such deficiencies. Sovereign followed the Staff's recommendations and the Staff took no further action. Grossman believed that the matters raised in the audits, including but not limited to disclosure of compensation, were resolved. The SEC's current claims against Grossman are based on the same issues raised in the 2004 Audit. The SEC's claims against Grossman are barred by the doctrine of laches, because Sovereign had been operating for years pursuant to the SEC's recommendations without notice that Sovereign's corrective action was still a perceived deficiency or violation of law and Grossman will suffer injury or prejudice if relief is awarded to the SEC.

**THIRD AFFIRMATIVE DEFENSE**  
**(Estoppel)**

As early as 2004, the SEC Southeast Regional Office in Miami, Florida (the "Staff") audited Sovereign (2004 Audit). In response to the 2004 Audit, Sovereign provided the Staff with information and documentation relating to: (i) Grossman's due diligence into Battoo and the Battoo Funds; (ii) the Referral Agreements and International Consulting Agreement, Grossman's role as an International Consultant; (iii) Sovereign's IAA agreements; (iv) Sovereign's ADV's; (v) Sovereign's disclosure of compensation; (vi) financial statements, and (vii) Sovereign's policies and procedures. After review of the Sovereign information and documentation, the Staff issued a "Request for Correction Action" identifying Sovereign's perceived deficiencies and/or violations of law, including disclosure of compensation. The Staff also recommended how Sovereign could correct such deficiencies. Sovereign followed the Staff's recommendations and the Staff took no further action. Grossman believed that the matters raised in the audits, including but not limited to disclosure of compensation, were resolved. The SEC's current

claims against Grossman are based on the same issues raised in the 2004 Audit. The SEC is estopped from asserting its claims against Grossman, because Sovereign had been operating for years pursuant to the SEC's recommendations without notice that Sovereign's corrective action was still a perceived deficiency or violation of law and Grossman will suffer injury or prejudice if relief is awarded to the SEC.

**FOURTH AFFIRMATIVE DEFENSE**  
**(Unclean Hands)**

Sovereign has been operating for years based upon the Staff's recommendations for corrective action of Sovereign's perceived deficiencies and violations of law discovered during the 2004 Audit. The SEC is now alleging that the Staff's recommended corrective action remains a deficiency and/or violation of the law. As a result, the SEC's claims against Grossman are barred by the doctrine of unclean hands.

**SIXTH AFFIRMATIVE DEFENSE**  
**(Waiver)**

Sovereign has been operating for years based upon the Staff's recommendations for corrective action of Sovereign's perceived deficiencies and violations of law discovered during the 2004 Audit. The SEC is now alleging that the Staff's recommended corrective action remains a deficiency and/or violation of the law. As a result, the SEC has waived its rights to assert its claims against Grossman.

**SEVENTH AFFIRMATIVE DEFENSE**  
**(Fraud by Third-Party)**

The SEC and CFTC each filed fraud claims against Battoo. In addition to the SEC and CFTC claims, Grossman and Sovereign filed a state court action against Battoo. Grossman cannot be held liable for the fraudulent acts of a third party to which Grossman did not have any knowledge of the fraudulent conduct. As a result, the SEC's claims against Grossman that attempt to impute Battoo's and/or Madoff's fraudulent conduct to Grossman are barred as a matter of law.

**EIGHTH AFFIRMATIVE DEFENSE**  
**(Contributory Negligence)**

Sovereign has been operating for years based upon the Staff's recommendations for corrective action of Sovereign's perceived deficiencies and violations of law discovered during the 2004 Audit. The SEC is now alleging that the Staff's recommended corrective action remains a deficiency and/or violation of the law. To the extent that Grossman has any liability arising from following the Staff's recommendations, then the SEC is contributorily negligent.

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