UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

HORACIO MENDEZ and	§	
ANNALISA MENDEZ,	§	
individually and on behalf of a class	§	
of all others similarly situated	§	
	§	
VS.	§	**CIVIL ACTION NO. _________**
	§	
PERSHING LLC, and	§	
LOCKWOOD ADVISORS, INC.	§	
	§	
Defendants.	§	

PLAINTIFFS' ORIGINAL COMPLAINT - CLASS ACTION

NOW COME PLAINTIFFS, **HORACIO MENDEZ and ANNALISA MENDEZ, individually and on behalf of a class of all others similarly situated**, (collectively hereinafter "Class Plaintiffs"), and file this their Original Complaint - Class Action against Defendants, **PERSHING LLC** and **LOCKWOOD ADVISORS, INC.** (sometimes collectively referred to hereinafter as "Pershing"), and in support thereof would show the Court the following:

I. PARTIES

1. Plaintiff, HORACIO MENDEZ, is a citizen of the United States of America currently residing in Travis County, Texas.

2. Plaintiff, ANNALISA MENDEZ, is a citizen of the United States of America currently residing in Travis County, Texas.

3. Additionally, this case seeks certification of:

(i) a class of all investors who, as of February 16, 2009, had purchased and still held

Certificates of Deposit ("CD") and/or otherwise maintained deposit accounts with Stanford International Bank Ltd. ("SIBL") through brokerage accounts established at SGC, or IRA accounts at Stanford Trust Company ("STC"), and, in the alternative, seeks certification of:

(ii) a class of all investors who, as of February 2009, had purchased and still held CDs and/or otherwise maintained deposit accounts with SIBL through brokerage accounts established at SGC, or IRA accounts at STC, and whose funds were wire transferred by Pershing to SIBL to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009; and, in the further alternative, seeks certification of:

(iii) a class of all investors who, as of February 2009, had purchased and still held CDs and/or otherwise maintained deposit accounts with SIBL through brokerage accounts established at SGC, or IRA accounts at STC, and whose funds were wire transferred by Pershing to SIBL to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009 from cash funded by the investors into their SGC brokerage accounts; and, in the further alternative, seeks certification of

(iv) a class of all investors who, as of February 2009, had purchased and still held CDs and/or otherwise maintained deposit accounts with SIBL through IRA accounts established at STC, and whose funds were wire transferred by Pershing to STC to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009 through their STC IRA accounts.

4. Defendant Pershing LLC ("Pershing") is a Delaware limited liability company doing business in Texas, and with its principal place of business in New Jersey. Pershing can be served through its registered agent in Texas, Corporation Service Company, at 701 Brazos Street, Suite 1050, Austin, Texas 78701. Pershing is a registered broker-dealer, and it is authorized to conduct business, and on information and belief, does conduct business, in Texas. According to its website, Pershing has over 70 years of experience in the financial industry, and is the largest provider of

global clearing services to other firms and institutions, which include the services described in more detail below.

5. Defendant, Lockwood Advisors, Inc. ("Lockwood") is a corporation doing business in the state of Pennsylvania. Lockwood may be served with service of process by serving the Secretary of State by certified mail, return receipt requested, pursuant to Rules 106 and 108a of the Texas Rules of Civil Procedure. Lockwood may be served by serving its President, Leonard A. Reinhart, One Wall Street, 32nd, New York, New York 10286.

II. JURISDICTION & VENUE

6. This Court has original jurisdiction over this proceeding pursuant to 28 U.S.C. §1332(d)(2)(A) because this is a class action in which the amount in controversy exceeds $5,000,000.00 and is a class in which some members of the Plaintiff class are citizens and residents of states different from Defendants.

III. FACTUAL BACKGROUND

A. The Stanford Financial Empire

7. From the mid-1980s through February 2009, R. Allen Stanford ("Stanford"), a former gym owner from Mexia Texas, built a financial service empire that at its height boasted 30,000 customers in 130 countries managing billions of dollars in investment funds. The empire was comprised of over 140 companies from across the globe, all of which were ultimately owned by Stanford himself, that operated under the brand name "Stanford Financial" with its worldwide headquarters located in Houston, Texas. The conglomeration of Stanford companies (hereinafter collectively referred to as "Stanford Financial") included the main operating companies: the Houston, Texas-based registered broker/dealer and investment adviser company Stanford Group Company ("SGC"); Antiguan based offshore bank Stanford International Bank Ltd. ("SIBL");

Stanford Trust Company (Louisiana)("STC"), Stanford Trust Company (Antigua), and the representative offices of Stanford Trust Company (Antigua) that operated in Miami, Houston and San Antonio under the d/b/a "Stanford Fiduciary Investor Services" ("SFIS"), all of which entities were ultimately controlled and managed from the United States, principally Houston, Texas.

8. Begun initially as an offshore banking operation in the mid-1980s called Guardian International Bank, Stanford Financial grew over the years into a full service financial services group, offering clients private banking and U.S.-based broker dealer and investment adviser services worldwide from its SGC headquarters base in Houston, Texas. Stanford Financial gave all the appearances of a highly successful operation, with lavish offices in some of the world's premier cities. Stanford himself made the Forbes' list of the richest people in the world with a personal fortune estimated at $2.2 billion.

9. The entire Stanford Financial operation was fueled by one primary product: Certificates of Deposit ("CDs") issued by the Antiguan offshore bank wholly owned and controlled by Stanford himself – SIBL. Clients who were introduced to the Stanford Financial group, whether in Houston, Miami, Caracas or Mexico City, quickly found out that the main financial product being peddled by the group was the SIBL CD. The SIBL CDs were sold worldwide by a web of different Stanford Financial promoter companies, including SGC, STC and SFIS, whose sole function was to promote the sale of the SIBL CDs. By 2009, SIBL had sold over $7.2 billion in CDs.

B. Stanford's U.S. Operations

10. For the first decade of his CD sales operations, 1985-1995, Stanford and his offshore bank (whether Guardian or SIBL) targeted an exclusively Latin American clientele. But by the mid-1990s, Stanford had begun to establish a foothold in the United States. In 1995 Stanford established SGC and registered it as a broker/dealer and investment adviser in February, 1996. Headed by

Louisiana brokers Jay Comeaux and Alvaro Trullenque, SGC established offices initially in Houston and Baton Rouge, and began to grow. Stanford began the practice of "head hunting" for U.S. brokers, bankers, and other financial advisers, paying enormous signing bonuses to the brokers, bankers and other financial advisers to leave their jobs at other firms and transfer their book of clients over to SGC. Fueled by this influx of veteran bankers, brokers and investment advisers, SGC grew from 6 branch offices in the United States to more than 25 offices across the United States (but principally concentrated in the Southern United States) between 2004 and 2007.

11. Recognizing the huge potential for marketing his offshore CDs to Latin Americans via the "gateway" city of Miami, in 1998 Stanford established SFIS, a representative office of SIBL in Miami and, with the help of the Miami law firm Greenberg Traurig and partner Carlos Loumiet, disguised it as the representative office of Stanford Trust Company (Antigua) in order to evade U.S. banking regulations. From that date forward until it was shut down in 2009, the Miami office of SFIS generated over $1 billion in SIBL CD sales for Stanford, primarily sales to investors from South American countries such as Venezuela, Ecuador, Colombia and Peru. Based on the Miami success of SFIS, Stanford thereafter set up SFIS offices in Houston and then San Antonio, Texas, designed to cater to Mexican investors visiting those cities.

12. Stanford then decided he wanted to sell the SIBL CDs to the IRA accounts of U.S. investors. He therefore established STC in Baton Rouge Louisiana in 1998 to serve as the trustee/custodian for IRA accounts owned by investors referred to STC by SGC. Once set up with STC, the SGC brokers and investment advisers then convinced the IRA investors to invest some or, in many cases, ***all*** of their IRA account into the SIBL CDs.

13. For all of these promoter companies --- whether SGC, SFIS or STC -- the primary product marketed and sold, and which sustained the operations and paid the employees' salaries and

bonuses, was the SIBL CD. All of these companies were 100% owned by Stanford, and all of these companies were interconnected via various intercompany marketing and referral fee agreements whereby SIBL paid percentage commissions or referral fees to the promoter companies for promoting the CDs. In fact, it was no secret that throughout its history, SGC depended entirely for its survival on the constant influx of referral fees paid by SIBL to SGC for the promotion and sale of the SIBL CDs.

14. Houston, Texas was the administrative nerve center and principal base for all of the operations of Stanford Financial, including SIBL, SGC, SFIS and STC. All of the sales and marketing practices for the entire Stanford Financial group (including SIBL), as well as general operational and administrative functions, were managed under the overall direction, supervision, and control of the Houston offices of Stanford Financial. SIBL itself never had a sales force or marketing or promotional arm in Antigua – rather it depended entirely on all of the separate promoter or "feeder" companies like SGC, SFIS and STC to sell its CDs. The head of the global sales operation for the marketing and sale of the SIBL CDs was located in Houston, Texas.

15. All of the Stanford Financial/SIBL sales practices, directives, techniques, strategies and reward programs were developed and crafted in Houston and disseminated to the various Stanford Financial branch offices around the world, including STC and SFIS. All of the sales force training manuals, promotional literature and materials for SIBL, including the Spanish-language promotional materials used by SGC, STC and SFIS, were created, printed, packaged and mailed from Stanford's Houston headquarters to the other Stanford Financial sales offices around the world to be utilized by the local sales force in each country.

16. In addition, mandatory sales training for the Stanford Financial sales force for SIBL was conducted principally in Houston (known to the foreign financial advisers as the "Houston

experience") by Stanford Financial personnel headed by Oreste Tonarelli. In those mandatory training sessions, sometimes twice a year, the Stanford Financial financial advisers ("FAS") were trained to sell the Stanford Financial image. The Stanford Financial "script" for why SIBL was a safe and secure place to invest money, as set forth in the training manuals and reinforced "live" in Houston, was drilled and drilled again into their heads. Therefore all of the sales, marketing and promotional activities for Stanford Financial and SIBL occurred in Texas.

17. The Stanford Financial/SIBL sales and promotional materials created in Texas and distributed uniformly throughout the world intentionally blurred the lines between Antigua-based SIBL and the other U.S.-based Stanford Financial entities, including SGC, STC and SFIS, and intentionally created the false impression that, e.g., SIBL and SGC were one and the same and therefore that SIBL enjoyed the same regulation and protections as a U.S.-regulated company, including regulation by the SEC and coverage by SIPC. As the Receiver has reported previously, "Stanford's financial advisors used the apparent legitimacy offered by U.S. regulation of Stanford's U.S. brokerage subsidiary in order to generate sales of SIBL CDs worldwide."[1] Little did the investors like the Class Plaintiffs know that Allen Stanford, Jim Davis and others were engaged in a long running conspiracy to ensure that Stanford Financial, including SGC, SIBL, STC & SFIS, evaded SEC and other U.S. federal regulations, and regulation from any other governmental agency, foreign or domestic, at all costs, in order to keep prying eyes away from the SIBL portfolio. In the end, keeping the SIBL asset portfolio a secret so that no one knew where the money from the CD sales was going, became the most important facet of Stanford's global Ponzi scheme.

C. Pershing's Reckless Participation in Stanford's Fraud: Funding the Ponzi Scheme

18. Pershing became involved with SGC in 2005, when SGC was looking to replace Bear

Stearns as the custodian and clearing broker for its securities trades and custodial functions. Negotiations regarding the parameters of the relationship and the nature of the services to be provided by Pershing began in early 2005 and continued for roughly eight months throughout 2005. From the beginning, the SGC employees dealing with Pershing, including Danny Bogar, A.J. Rincon, and Bob Kramer, informed Pershing (through Pershing officers John Ward, Ron Artzi, Tres Arnett, and Ed Zelezen) about SIBL, the SIBL CD program, and the nature of the related party transactions between SGC and SIBL and the fact that SGC was marketing and offering the SIBL CDs to its brokerage and investment adviser customers and earning above-market referral fees, up to 3% of the value of the CD, for doing so.

19. As part of establishing its business relationship with SGC, Pershing undertook to perform a due diligence investigation of Stanford's entire operation, which due diligence investigation took place over a period of roughly eight months during 2005, and included Pershing's review of pending arbitration cases against SGC and review of the 1998 drug money laundering forfeiture case involving SIBL. Upon information and belief that due diligence also included a trip to Antigua to visit SIBL in July 2005 and meet with Antiguan regulators.

20. During their due diligence review of Stanford's operations in June and July 2005, Pershing officials reviewed the financial statements of SGC and SIBL and became aware that (i) SGC was utterly dependent for its survival on revenues from referral fees paid to SGC by SIBL for the marketing and promotion of the SIBL CDs, and (ii) the financial condition and financial statements of SIBL, an offshore bank with billions of dollars in deposits, much of which was obtained from registered broker/dealer SGC, was audited (and had been audited consistently for 18 years by this point in 2005) by a one man accounting firm in Antigua, C.A.S. Hewlett & Co., Ltd.,

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1 "Report of the Receiver Dated April 23, 2009" in the SEC Action [docket #336], at 7.

that no one at Pershing had ever heard of before.

21. Most multi-billion dollar investment funds go through rigorous audits by large and well-known audit firms and in fact switch auditors every few years to avoid even the appearance of impropriety. This was not the case with SIBL and Pershing was aware of this fact. Pershing quickly discovered that, from SIBL's inception to its closing, its sole auditing firm was Hewlett, a very small local firm in Antigua. The Hewlett firm lacked the apparent resources, credentials, reputation, and staff to audit a multi-billion dollar investment portfolio, and Pershing was aware of this fact.

22. As part of its due diligence on Stanford's operations, Pershing also discovered that SIBL offered CD rates that were greater than those offered by banks in the United States. SIBL's yield ranged from a high of 388% of the yield available from FDIC insured banks in the United States in 2002 to a low of 140% of the U.S. bank yield in 2006. According to its offering materials, reviewed by Pershing, SIBL purported to function like a hedge fund but, unlike a hedge fund, its customers were guaranteed (by SIBL) a specified return regardless of the fund's performance. SIBL's reported returns were steady, fluctuating from 11.7% to 14.9% between 1997 and 2007. SIBL showed a profit in good times and in bad.

23. In reviewing SGC's financial information, including its audited financial statements, as part of its 2005 due diligence review, Pershing also discovered that without income related to the sale of the SIBL CDs, SGC would have been insolvent from at least 2004 forward (and likely before). Pershing realized that referral fees and other CD related compensation paid by SIBL to SGC constituted 71.65% of SGC's revenue for 2004; 63.62% for 2005; 65.01% for 2006; 50.8% for 2007; and 52.83% for 2008. Even when this CD related compensation from SIBL is considered along with other income received by SGC in the ordinary course of business, SGC showed negative cash flows from operations of $7,674,855 in 2004; $18,029,885 in 2005; $46,054,375 in 2006;

$6,616,444 in 2007; and $35,102,135 as of November 30, 2008. The only reason SGC's financial statements did not reflect negative cash flows between 2004 and 2008 is because SGC received millions of dollars in capital contributions from Stanford and/or other Stanford Financial related party entities. SGC received $10,000,000 in capital contributions in 2004; $21,000,000 in 2005; $51,500,000 in 2006; $41,750,000 in 2007; and $51,000,000 in 2008. All of this was reflected in SGC's financial statements reviewed by Pershing.

24. Pershing executives also gained an understanding as to the composition of the Board of Directors of SIBL in 2005, and learned that an 83 year old friend of Stanford's father, O.Y. Goswick, a former rancher and car dealership owner, was listed in the SIBL annual reports as being somehow in charge of SIBL's multi billion dollar investments portfolio. Pershing officials also learned that the Chief Investment Officer for the entire Stanford operation, Laura Pendergest, had no real business or finance education or training, but instead was a college graduate from Mississippi State with a degree in Math. Pershing executives Ward, Closs and Pershing Compliance Officer Claire Santaniello held a teleconference with Pendergest on August 31, 2005 to discuss the SIBL CD product and SIBL's investments and rates of return. Pershing learned that essentially Jim Davis and Laura Pendergest managed the entire Stanford investment portfolio. It is extremely unusual for such a small number of people to manage and control a multi-billion dollar investment portfolio. Most financial institutions search for and recruit the top talent in the market to manage portfolios of that size. But not Stanford.

25. From a regulatory perspective, Pershing learned that Stanford had not registered the SIBL CDs for sale in the United States, and that SGC was selling the CDs under a Reg D filing. Upon information and belief, Pershing reviewed SIBL's Reg D filings, and knew that SIBL had amended its Reg D filing in November 2004 to increase the dollar amount of the CD offering from

$200 million (as stated in SIBL's March 2004 Reg D filing) to $1 billion, an increase of $800 million in 8 months. Pershing also knew that SGC had sold the CDs to more than 500 investors in the U.S. Pershing also became aware in June or July 2005 that Stanford was being actively investigated by the SEC.

26. During the due diligence period in the summer of 2005, SGC employees specifically informed the Pershing representatives that SGC would require a separate service from Pershing above and beyond the clearing and custody of securities trades: international wire transfers to SIBL for the funding of the purchase of the SIBL CDs by SGC customers. The SGC employees explained to the Pershing representatives that SGC would require Pershing to wire transfer money from SGC's clients' accounts at SGC (in custody at Pershing) to SIBL for the purchase of the SIBL CDs, or to wire transfer funds from the SGC clients' accounts to STC for the purchase of SIBL CDs to be held in the clients' IRA accounts at STC.

27. After concluding its lengthy and extensive due diligence review of Stanford Financials operations and business model, on October 12, 2005, Pershing Managing Director John Ward sent an e-mail to Mauricio Alvarado, Stanford Financials' global General Counsel in which Pershing confirmed to Stanford that, as to the wire transfer business between SGC and SIBL, "[*w]e fully understand the nature of the relationship and the reason for these movements*". On October 18, 2005, as the parties neared the execution of the contractual documents that would govern the relationship going forward, Pershing Vice President Ron Artzi sent an e-mail to Stanford Financial employees Alvarado, Jane Bates (Stanford's director of compliance), and Bob Kramer (Stanford in-house lawyer) stating that Pershing was "*excited to have the opportunity to partner*" with Stanford Financial, and that the Pershing representatives were confident that they "*thoroughly understand the unique compliance and legal requirements associated with servicing*" the Stanford business.

Pershing thereafter referred to the Stanford relationship as a "partnership" and established the SGC account as a "Premier Partner" for Pershing. Pershing also promised to take "*an active role in complimenting the future growth*" of SGC.

28. SGC and Pershing executed the Fully Disclosed Clearing Agreement on December 27, 2005, and incorporated therein all of the schedules for pricing for all of the different services Pershing was to provide to SGC. The same contractual relationship also applied to SGC's sister companies, SFIS and STC Louisiana, which handled and served as custodian/trustee for the IRA accounts for Stanford investors, the vast majority of which accounts were invested into the SIBL CDs. Pershing served as the wire transfer intermediary for those accounts as well, wiring money from SGC to STC's account at Hancock Bank, after which the money was always forwarded to SIBL for the purchase of CDs.

29. Pershing has admitted that it processed 1,600 wire transfers for SGC and STC customers and transferred more than $500 million to SIBL on behalf of Stanford investors, including Class Plaintiffs, for the purchase of SIBL CDs between 2006 and February 2009. Said wire transfers were performed on behalf of some 1,200 individual SGC investor accounts. During this same time period, Pershing and its affiliate Lockwood earned over $24 million in fees from the Stanford accounts.

30. In providing these services to Stanford, Pershing acted with reckless disregard for the truth and the law because, as described above, Pershing became aware of multiple glaring red flags as a result its due diligence review in 2005; knew that Stanford was under a formal investigation by the SEC as of December 2006; and developed deepening suspicions about the legitimacy of SIBL as early as June 2007, which suspicions grew exponentially throughout 2008. Despite its knowledge that Stanford was under a formal SEC investigation and despite its knowledge that no one seemed to

know where the money from the CD sales was going or what assets backed up the SIBL CDs, Pershing recklessly continued to provide substantial assistance to Stanford by transferring millions of dollars of Plaintiffs' money to SIBL to fund the purchase of SIBL CDs. Indeed, lured by the tens of millions of dollars in fees it was earning from the Stanford business, and despite Stanford's consistent refusal to provide the verifiable backup on SIBL to Pershing that Pershing itself demanded, *for an entire year*, from Stanford concerning the composition of the SIBL portfolio, Pershing still did not stop this wire business until the day after the Madoff Ponzi scheme was unveiled.

31. After being in business with Stanford for over a year, by June 2007, Pershing had developed serious doubts about SIBL's legitimacy. On June 7, 2007, in an e-mail entitled "Deepening our relationship", Pershing Managing Director John Ward wrote to SGC President Danny Bogar indicating that Pershing's commitment to supporting Stanford's growth required Pershing to gain a much deeper understanding of Stanford's operations, including SGC's reliance on referral fees from the sale of SIBL CDs, and, importantly, "*the ability of SIBL to continue generating returns to pay these referral fees*". Ward went on to state that Pershing needed to gain an understanding of the composition of the SIBL portfolio. Ward concluded his mail by requesting a meeting with Stanford CFO Jim Davis and a visit to SIBL in Antigua by July 2007. Pershing executive Ed Zelezen followed up with an e-mail request dated June 11, 2007 to Bernie Young, the new head of compliance for SGC, requesting the offering prospectus for the SIBL offshore CDs so that Pershing executive Tom Guinan, Chief Credit Officer, could review it. Bernie Young complied and sent Pershing the SIBL offering package and disclosures. After receiving and reviewing them, Pershing's Guinan wrote Young on June 15, 2007 thanking him for the SIBL CD disclosure documents and subscription agreement but then noting that he could not see anywhere in the

documents that Young had sent any description of the underlying investments that comprised the SIBL portfolio and where the assets were held. Guinan informed Young that he would have expected to see that type of information in the prospectus, and requested that Young forward that information to him. Young never did.

32. Later in July 2007, Young delivered copies of SIBL's 2006 financial statements, audited by CAS Hewlett, to Pershing officer Richard Closs at the request of Pershing executive Ed Zelen. Young also provided Pershing with continuing updates concerning the ongoing SEC investigation of Stanford from December 2006 through 2008. Thus Pershing was aware throughout 2007 and 2008 that Stanford was under investigation by the SEC. In fact during the entire period of time (December 2006 through February 2009) that Pershing was doing business with Stanford, the regulatory investigation of Stanford grew in scope and intensity, until by 2008 Stanford was fending off investigations and responding to separate Subpoenas from the SEC, FINRA, Board of Governors of the Federal Reserve, and state regulators in Florida and Louisiana investigating the SFIS and STC offices.

33. The Pershing executives thereafter held a meeting with Jim Davis and Danny Bogar in Memphis on August 8, 2007 to discuss, *inter alia*, SIBL's investment portfolio, the SIBL CD program, and the referral fees paid to SGC by SIBL. After that meeting, on August 27, 2007, John Ward sent an e-mail to Danny Bogar and SGC CFO Chuck Weiser requesting, among other things, SIBL's investment policy statement, details on the external managers that managed SIBL's portfolio, and statements from the SIBL portfolio custodians reflecting asset totals maintained in custody. Danny Bogar forwarded that e-mail to Jim Davis later that day, and told Davis that he would "wait awhile" before responding, but then would inform Pershing that Stanford had not agreed to provide all of the things requested by Pershing.

34. Thereafter Pershing's Ward pressed SGC's Bogar for a date to visit SIBL in Antigua. SGC coordinated the trip for January 2008, and set up meetings between the Pershing representatives and Juan Rodriguez-Tolentino, the President of SIBL, and Leroy King, the head of the Financial Services Regulatory Commission ("FSRC"), the Antiguan regulatory body supposedly in charge of regulating SIBL. On January 8, 2008, Ward wrote to Bogar that at the meeting with the FSRC, Pershing expected to be provided with documentation regarding SIBL's balance sheet, including "*the supporting paperwork that reflects the assets*". Ward closed the e-mail by stressing that "*it is important that we are able to leave with a clear picture of the assets and liabilities [of SIBL], and have been able to see work papers that evidence this.*"

35. However, at the meetings in Antigua on January 10, 2008, Pershing discovered that, in fact, the FSRC had no work papers or any other documentation of any kind evidencing or supporting the assets that SIBL claimed to own or that were reflected on its books. Pershing discovered at that meeting in January 2008 that there were only three bank examiners in the Antiguan FSRC who were responsible for examining and regulating all of the banks in Antigua. Pershing also discovered that it was the regular practice of the FSRC to just accept at face value whatever SIBL told the FSRC about its financial condition and portfolio values, which was contrary to what SGC had previously represented to Pershing regarding the extent and magnitude of regulation of SIBL by the FSRC. Pershing also became aware that, as a result of the FSRC not knowing anything about SIBL's portfolio, the only outside entity that supposedly had independent knowledge of SIBL's portfolio was the one man accounting firm in Antigua that SIBL had used without interruption for 20 years and that Pershing had never heard of – C.A.S. Hewlett. Pershing left Antigua without receiving the "clear picture" of SIBL's balance sheet that Pershing itself had demanded and stressed was so important to Pershing. Yet Pershing continued to do business with

Stanford for an *entire year* thereafter.

36. Upon their return from Antigua, the Pershing officials debated internally as to what they needed to do to assuage their suspicions about SIBL. But, despite its suspicions as to the makeup of the SIBL portfolio supporting the CDs, and the misrepresentations by SGC officials about the nature and extent of regulation by the Antiguan FSRC, and despite its knowledge that the entire Stanford operation was under formal investigation by the SEC, Pershing determined in January 2008 that it would continue to do business with Stanford, and would continue to provide the wire transfer service and help Stanford effectuate Class Plaintiffs' and the Class' purchase of the SIBL CDs that Pershing had suspicions about.

37. Instead of ceasing to do business with Stanford, Pershing decided to give Stanford another chance to prove itself, this time by requesting that Stanford hire a "recognized" accounting firm to perform an analysis of SIBL's portfolio and provide an independent certification as to the assets held in the SIBL portfolio. In making this request, Pershing clearly and unequivocally demonstrated that it had absolutely no confidence in the audits performed by SIBL's long standing Antiguan auditor, CAS Hewlett. Ward wrote to Bogar on March 17, 2008 that, in order to satisfy itself about SIBL, Pershing would "*accept a certification by a U.S.-domiciled recognized accounting firm*" certifying that "*they have conducted a review of [SIBL's] assets and that in their professional opinion [the assets] are reflected accurately in [SIBL's] balance sheet*". Essentially what Pershing was asking SGC for in March 2008 was a *real audit* of SIBL because it didn't trust the Antiguan audits performed by CAS Hewlett.

38. Thereafter, Stanford stalled and stonewalled Pershing for almost nine (9) months, all the way into late November 2008, about pursuing and obtaining an independent audit or certification of SIBL's assets. The stalling and stonewalling was blatant and obvious, and yet Pershing turned a

blind eye and allowed itself to be strung along, and recklessly continued to do business with Stanford and continued to transfer investors' money into the Ponzi black hole that was SIBL, all the while earning millions of dollars in fees.

39. Two months later, in May 2008, SGC still had not retained a U.S.-based recognized accounting firm to conduct the audit of SIBL's portfolio. Ward wrote to Bogar at SGC on May 19, 2008 asking Bogar to "let me have an idea of a date you believe the review can be completed by and results distributed". He went on to inform Bogar, that "while the issue with [SIBL] is unresolved" he could not finalize any pricing discussions with SGC.

40. In early June 2008, Ward sent another e-mail to Bogar, expressing exactly what Pershing wanted to see from an audit of SIBL's portfolio: (1) that the investments as reflected in the SIBL books and records reconcile to the offering materials and that said investments were placed with qualified custodians; (2) that the custodians' records reconcile with SIBL's books and records; and (3) that the investments were managed largely by independent managers and not by Stanford affiliated entities. SGC never retained an independent audit firm to conduct this review as requested by Pershing.

41. The summer of 2008 passed by without any resolution of the SIBL issue, and with repeated delays and stonewalling by SGC's Bogar. Finally on August 18, 2008 Ward wrote to Bogar requesting a teleconference with himself and Frank LaSalla, another Managing Director and member of the Pershing Executive Committee. This was because in July 2008, Bloomberg published an article stating that the SEC was "investigating sales of certificates of deposit by Stanford Group Company at its offshore bank, which has $6 billion in assets in Antigua." The article also noted that the SEC had issued subpoenas to two former SGC financial advisors, Charles Rawl and Mark Tidwell, who were allegedly forced to resign in 2007 because they refused to participate in SGC's

"illegal and unethical" marketing methods. The subpoenas sought information about the sale of SIBL CDs and requested copies of training materials on SIBL CD sales methods. The Bloomberg article was of course widely circulated and Pershing knew about it immediately. As a result, Ward wrote to Bogar on August 29, 2008 requesting that Stanford General Counsel Alvarado call Pershing executive Tres Arnett to discuss the Bloomberg press reports. Everything Pershing had seen was screaming fraud and Ponzi scheme at Pershing, but ***still*** Pershing continued to do business with SGC and transfer money to SIBL and earn millions of dollars in fees for that business.

42. In September 2008, several Pershing executives, including Pershing Chairman Richard Brueckner, were invited to attend a dinner in New York on September 25, 2008 with Stanford himself and members of the Stanford Financial Advisory Board. Before that dinner, on September 11, 2008 Ward wrote Bogar once again, asking him to move along the SIBL audit process so that he (Ward) could reassure Pershing Chairman Brueckner. Having received no response, Ward wrote to Bogar again on September 17, 2008 requesting yet again a teleconference to discuss the SIBL audit. Still SGC did nothing, and Pershing continued to transfer money to SIBL.

43. On October 10, 2008, Pershing executive Frank LaSalla wrote to SGC CFO Chuck Weiser and Bogar, and informed them that he could not "*stress enough how important it is for us to get this matter behind us as quickly as possible*." Weiser forwarded that e-mail immediately to Jim Davis. Still nothing was done. Ward wrote to Weiser again on October 31, 2008 inquiring as to any updates. Weiser again forwarded that communication to Jim Davis and Danny Bogar, telling them that "*I will need to tell them [Pershing] something early this week. If we are not going to do this, we need to go to plan B. I think plan B is getting [Stanford General Counsel] Mauricio [Alvarado] involved*." Bogar responded that he would discuss the Pershing issue with Alvarado.

44. Alvarado then requested to hold a teleconference with Pershing's Ward and Tres

Arnett, which was scheduled on November 11, 2008. By this time, Stanford was on the verge of collapse and was besieged by state and federal regulators from the SEC, FINRA. Federal Reserve, State of Florida and State of Louisiana. Still not satisfied with the answers they received from Alvarado during the November 11, 2008 teleconference, and with no progress on the independent audit, on November 24, 2008, Ward wrote to Bogar and informed him that Pershing needed an answer on the audit by December 1, 2008. Ward warned that "*any further delay will be viewed as an indication the review will not get done*." Of course, by this time, the "delay" had been going on for almost an entire year. Bogar forwarded that e-mail to Alvarado.

45. Then on November 28, 2008 Bogar gave Pershing's Ward Stanford's answer (which was vetted first by Alvarado), telling Ward that getting the audit of SIBL's portfolio accomplished was not a pressing issue for Stanford at that time. Pershing mulled it over, and then on December 12, 2008, Pershing informed Stanford that it would no longer process wire transfers to SIBL for the purchase of the CDs, and that Pershing was increasing the escrow amount that Pershing required from SGC as a deposit from $500,000 to $5 million. Bogar pleaded with Ward's superiors at Pershing to give SGC a few more days to adjust its procedures accordingly so that none of its clients got injured by the sudden change. Pershing agreed, and continued to allow the wire transfers for an additional 30 days – until January 12, 2008 – as long as they were processed through an intermediary escrow account SGC established at the Bank of Houston, which for years had served as one of the main banks for SIBL. But beginning January 12, 2008 Pershing started to enforce the new restrictions, with Ward informing Bogar that Pershing had rejected two wire transfers going to Bank of Houston for the benefit of SIBL, and also informed Bogar that any future wire transfers bound for SIBL would be rejected no matter how they were routed.

46. At that point Stanford considered taking legal action against Pershing for its refusal to

continue to fund the Ponzi scheme. On January 13, 2009 Alvarado drafted a demand letter to be sent to Pershing on behalf of SGC in which SGC argued:

> Pershing had the opportunity to perform due diligence on SGC, its business, and its affiliated companies to its complete satisfaction. Pershing took over eight months to complete its due diligence, which included visits to SIBL, meetings with bank regulators with oversight over SIBL, and a review of extensive documentation concerning the bank[…]. In the end, Pershing assured SGC that it had satisfactorily completed its due diligence and that it was prepared to enter into a clearing agreement with SGC. …
> **In the three years since Pershing completed its due diligence, there have been no material changes relating to SIBL or SGC's business with SIBL**. Accordingly, there can be no honest, good faith basis for Pershing's recent decision to refuse transactions with the bank (emphasis added).

47. A little over a month later the SEC filed its civil enforcement action against SGC, SIBL and Stanford, and the house of cards collapsed. Upon information and belief, Pershing has since fired John Ward from employment with Pershing.

D. The Stanford Ponzi Scheme

48. The reality of the Stanford Financial empire was that it was nothing but a massive, worldwide Ponzi scheme. The master manipulator and salesman, Allen Stanford reached new heights in terms of creating and perpetrating the ultimate "confidence" scam on a global level. Stanford became a true international financial pirate, absolutely intent on operating an outlaw investment company from his Caribbean safe haven completely outside the regulatory confines of the laws of any country, whether the United States, Antigua, Mexico or elsewhere. Indeed Stanford Financial violated the laws of virtually every country it operated in, including the United States, Mexico, Venezuela and Antigua. Stanford's repeated commission of regulatory fraud in various countries enabled and fostered the growth of SIBL's CD sales.

49. The gist of the fraud was simple: (1) sell the offshore SIBL CDs through a flashy

marketing campaign designed to trick investors into believing that they were purchasing safe, secure (even insured) and liquid CDs that were regulated in the United States because SGC was a U.S. licensed broker/dealer, while at the same time (2) maintain a "Wizard of Oz" style veil of secrecy over the SIBL asset portfolio and what Stanford was doing with the money (which ended up being whatever Allen Stanford wanted). Thus Stanford went to great lengths to keep prying eyes, particularly regulatory eyes, away from SIBL's portfolio.

50. SIBL was insolvent (i.e., its liabilities exceeded the fair value of its assets) from at least 2004 and probably for much longer, yet it continued selling CDs to the end. Stanford induced investors to buy CDs by offering above-market rates, issuing financial statements and other data that significantly overstated its earnings and assets, and misrepresenting its business model, investment strategy, financial strength, the safety and nature of its investments and other facts important to investors. SIBL's earnings and assets were insufficient to meet its CD payment obligations, so the only way Stanford could keep the scheme going was by using the proceeds from the CD sales to pay redemptions, interest and operating expenses. SIBL's assets were inflated to offset CD obligations and its revenues were "reverse-engineered" to arrive at desired levels. Each year or quarterly reporting period, Stanford and his minions would simply determine what level of fictitious revenue SIBL "needed" to report in order to both look good to investors and regulators and purport to cover its CD obligations and other expenses. They would then back into that total amount by assigning equally fictitious revenue amounts to each category (equity, fixed income, precious metals, alternative) of a fictitious investment allocation.

51. Stanford opened up his first offshore bank, Guardian International Bank ("Guardian"), in 1985 on the tiny (12,000 residents) Caribbean island of Montserrat. Guardian served as the starting point roadmap for the eventual creation of the Stanford Financial empire. Stanford

established representative offices for Guardian in Miami and Houston, under the name of Guardian International Investment Services, designed to cater to wealthy Latin American clients.[2] Stanford brought in his old college roommate James Davis to help run operations. Guardian offered CDs with rates typically 2-3% above the average rates available in the market, all with the confidentiality associated with offshore private banking.

52. By 1989 the banking system in Montserrat came under investigation by British and U.S. authorities. Guardian itself came under scrutiny for possible drug money laundering, and so Stanford began looking for other locations for his bank. In December 1990 Stanford re-incorporated Guardian Bank in Antigua and transferred all of the assets of the Montserrat licensed Guardian bank to the new Antiguan licensed Guardian bank. By May 1991 Stanford's banking license was officially revoked by the Montserrat Government (although Stanford later in 1994 would sue the Government of Montserrat to have that order rescinded). So Stanford simply picked up and moved his banking operations to Antigua, and continued the same basic business plan that had proven so profitable for Stanford in Montserrat. Stanford eventually changed the name of the Antiguan bank from Guardian to Stanford International Bank ("SIBL") in 1994.

53. Once established in Antigua, Stanford quickly set about establishing a symbiotic relationship with the local government. In return for political cover, Stanford eventually became a major source of funding for the entire island, eventually loaning hundreds of millions of SIBL investors' dollars to the Antiguan government over the years. Stanford even bought the Antiguan newspaper, the Antiguan Sun. By 2004, the island government owed Stanford Financial over $87 million – nearly half of its annual tax revenues – and certain of the loans were secured by Antigua's tax revenues and medical fund. In that same year, SIBL had grown to over $3 billion in deposits.

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2 *BusinessWeek*, Feb. 24, 2009, "Did Court Ruling Prolong Stanford Probe?"

54. So tight was the relationship between Stanford and the Antiguan government that, when Stanford Financial was accused of money laundering in 1998-1999, the Antiguan government turned to Stanford himself to rewrite the country's banking laws. Stanford and his agents were then named to the banking regulatory commission (the precursor to the FSRC), that was created and charged with supervising Antigua's banks. Stanford then used the new commission to wrest control of Antigua's offshore banking industry even stooping to the level of sending his representatives to physically take bank records from the previous Antiguan banking regulators.

55. Antigua's corruption and lax banking regulations is borne out by the Plea Agreement entered by Stanford CFO Jim Davis ("Davis Plea"), as well as by the June 18, 2009 federal grand jury Indictment of *inter alia*, Allen Stanford, Laura Pendergest-Holt, and Leroy King ("King"), Stanford's good friend and the former head of Antigua's FSRC (the "Indictment"). The Davis Plea and Indictment allege that for years King, while acting as the CEO of the Antiguan FSRC, accepted bribes from Stanford and/or his associates in return for ensuring that the FSRC "looked the other way" and did not properly perform its regulatory functions or supervise SIBL. King even entered into a bizarre Voodoo-like "blood brother" ritual with Allen Stanford in which he agreed to forever be bound to Allen Stanford. As part of the blood brother relationship and bribery, King became Stanford's regulatory spy and "inside man" in terms of relaying information to Stanford concerning the SEC's investigations of Stanford Financial and SIBL from 2005 all the way until 2009. All of this was just part and parcel of Stanford's broader conspiracy to keep his Ponzi scheme alive by evading and obstructing regulation of SIBL's activities at every turn and in every country.

56. Stanford Financial began to grow exponentially beginning in 2000. In November 1998, SIBL filed for an SEC Regulation D exemption to allow Stanford Financial to sell SIBL CDs to U.S. "accredited investors" in the United States without registering them as securities (of course,

Stanford continued to rampantly sell CDs to Latin Americans from its offices in Texas and Miami regardless of whether they were "accredited" or not). That initial Reg. D filing listed CD offerings totaling $50 million. SIBL filed an amended Reg. D in November 2001 increasing the CD offering amount to $150 million. SIBL filed two additional amendments in 2004 (March and then November) increasing the size of the offering to $200 million and then to $1 billion, clearly evidencing the mass sales of SIBL CDs taking place in the United States. Finally, in November 2007 SIBL filed yet another Reg. D amendment to increase the size of the offering to $2 billion. During those years, SIBL sold CDs under the Reg. D offering to well in excess of 1,000 investors.

57. In November 2004, as part of Stanford's in-house legal team's analysis of Reg. D, Stanford lawyer Rebecca Hamric prepared a Memo to General Counsel Mauricio Alvarado in which she set forth the legal analysis supporting SIBL's decision to amend its Reg. D filing to increase the offering amount to $1 billion. She stated in the Memo that she had cold-called the SEC and talked to an SEC lawyer about how often an issuer could amend a Reg. D filing, and described how the SEC lawyer had mentioned that many hedge funds use section 506 because the sales "go on for years". She pointed out that, "*although the SIBL CD is not marketed as a hedge fund, the filing issues are similar, and we should be able to address our own issues similarly*". She went on to recommend that SIBL increase its offering limit to $1 billion.

58. During this same time period, Stanford Financial employees in Houston reported that Stanford had printed and distributed to FAs for marketing purposes some 30,000 SIBL offering brochures in 2003. In March, 2006, Stanford Financial personnel reported that the various U.S. sales offices had collectively distributed 4,424 SIBL CD "accredited investor" packets to investors under the Reg. D offering.

59. From 2004 to 2008 Stanford Financial grew into a high-powered sales and marketing

juggernaut. Stanford Financial began an intensive television advertising campaign in the United States in 2005 designed to promote the sale of the CDs. The different Stanford Financial sales offices competed with each other for CD sales, and developed team names like “Money Machine”, “Aztec Eagles” (the Mexico team) and “Superstars”. In order to market and sell the SIBL CDs, Stanford established a commission structure that provided huge incentives for the Stanford Financial FAs, including those in Latin America, to “push” the SIBL CDs on investors like Plaintiffs. SIBL paid disproportionately large commissions to SGC for the sale of CDs; SGC received a 3% commission upon the sale of the CDs, of which 1% was paid to the SGC broker that made the sale, and the FAs were also eligible to receive as much as a 1 % trailing commission throughout the term of the CD. Stanford Financial used this generous commission structure to recruit established financial advisers to the firm, and to reward those advisers for aggressively selling the CDs to investors. Of course, commission and bonus structures like that used by SIBL are not typical, largely because they cannot be sustained economically-i.e., the investments do not make enough to cover the stated CD rates of return, commissions and referral fees along with other applicable operating expenses.

60. The ultimate reality of Stanford Financial is that it was, at all times, illegally operating an investment company from Houston, Texas In essence, Stanford Financial, acting through its international network of companies and FAs, lured money from investors like Plaintiffs; gave them an “IOU” piece of paper called a “Certificate of Deposit” in return; and then pooled all of the investors’ money together to make investments in various illiquid and high risk assets worldwide, including loans to Allen Stanford and massive investments in Antiguan real estate. None of the investors’ money was segregated and all investor money was commingled and then sprinkled as equity investments throughout the various companies that comprised Stanford Financial. As such, in

reality Stanford Financial was operating as an outlaw mutual or hedge fund, not registered under the Investment Company Act, and selling its internal product securities to Plaintiffs and others from Houston, Texas in violation of the Investment Company Act. Section 47(b) of the Investment Company Act provides:

> A contract that is made, or whose performance involves, a violation of this [Investment Company] Act, is unenforceable by either party to the contract who acquired a right under the contract with knowledge of the facts by reason of which the making or performance violated or would violate any provision of this Act . . . unless a court finds that under the circumstances enforcement would produce a more equitable result than nonenforcement and would not be inconsistent with the purposes of this Act. 15 U.S.C.§ 80a-46.

61. Stanford Financial was never registered or authorized to operate as an investment company in the United States, a fact that was never disclosed to Plaintiffs or the Class, who were consistently and uniformly told verbally and via the Stanford Financial promotional materials that, e.g. the Stanford Financial group based in Houston, Texas was compliant, authorized and regulated by the SEC and FINRA and backed by SIPC and Lloyd's of London insurance coverage. Plaintiffs and other investors were never told the material fact that the acts of Stanford Financial and its unregistered investment company were *void as a matter of law* under Section 47 of the Investment Company Act.

62. As part of the fraud committed on Plaintiffs and the Class, Stanford Financial also touted the high liquidity of SIBL's investment portfolio. For example, in its marketing materials distributed to Plaintiffs and the Class from at least 1995 through 2009, which materials were reviewed by Pershing, Stanford Financial emphasized the importance of the liquidity of the SIBL CD, stating, under the heading "Depositor Security," that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors." None of that was true. Likewise, Stanford Financial trained its advisers to stress liquidity in their marketing pitches to

prospective investors, telling the brokers and advisers that "liquidity/marketability of SIBL's invested assets" was the "most important factor to provide security to SIBL clients…" To ensure investors would buy the CDs, Stanford Financial, through its FAs, assured the investor clients that SIBL's investments were liquid and diversified, and therefore that the CDs themselves were highly liquid and could be redeemed with just a few days notice. But in fact, nearly 80% of SIBL's investments were concentrated in high-risk, illiquid categories: (1) unsecured loans to Allen Stanford in the amount of $1.8 billion; (2) private equity investments in non-public companies; and (3) investments in Stanford Financial companies with real estate holdings, including extensive real estate holdings in Antigua and elsewhere in the Caribbean.

63. Contrary to Stanford Financial's representations (both verbal and via the promotional materials) to Plaintiffs and the Class regarding the liquidity of its portfolio from 1995 through 2009, significant portions of SIBL's portfolio were misappropriated by SIBL's sole shareholder, Allen Stanford, and used by him to invest heavily in Caribbean real estate development ventures. In fact, by 2008, Stanford Financial was essentially a real estate development fund, a crucial fact that was never disclosed to Plaintiffs or the Class.

64. At year-end 2008, the largest segments of SIBL's portfolio consisted of the "loans" to Mr. Stanford and over-valued real estate, primarily in the Caribbean. By February 2009, Mr. Stanford had misappropriated at least $1.8 billion of investor money through bogus personal loans and "invested" an undetermined amount of investor funds in speculative, unprofitable private businesses controlled solely by himself, including massive investments in real estate and other private business ventures in Antigua. The rest of the money from investors was spent by Stanford on creating and perpetuating the Stanford Financial image charade with lavish offices, outsized bonuses and commissions paid to lure and retain top performing sales personnel, extravagant special events

for clients and employees, and the other accoutrements necessary to shore up the Stanford Financial image of wealth, power and prestige. None of this was disclosed to Class Plaintiffs and the Class.

65. As alleged in the Davis Plea and in the criminal Indictment of Allen Stanford and the others, Stanford and his CFO Jim Davis fabricated the performance of the bank's investment portfolio and lied to investors about the nature and performance of the portfolio. Gilberto Lopez and Mark Kuhrt, accountants for Stanford-affiliated companies, fabricated the financial statements. Using a pre-determined return on investment number, typically provided by Stanford or Davis, Lopez and Kuhrt reverse-engineered the bank's financial statements to report investment income that the bank did not actually earn. Information in SIBL's financial statements and annual reports to investors about the bank's investment portfolio bore no relationship to the actual performance of the bank investments. SIBL's financial statements and annual reports to investors were prepared, drafted and approved by Stanford, Davis, Lopez and Kuhrt. Stanford and Davis signed these falsified financial statements."[3]

66. By year-end 2008, Stanford Financial had sold approximately $7.2 billion worth of SIBL CDs to Plaintiffs and the Class by touting: (i) the bank's safety and security, including that invested funds were insured; (ii) consistent, double-digit returns on the bank's investment portfolio; and (iii) high return rates on the CD that exceeded those offered by commercial banks in the United States. It was at the end of 2008, in the midst of the worldwide financial meltdown, that Stanford Financial began to stumble.

67. As alleged by the SEC and the United States Justice Department, in order to cover up a hole in SIBL's balance sheet that would cause it to fall below minimum capital requirements, in 2008 Stanford and Davis concocted a bogus $541 million shareholder equity infusion by

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3 SEC Second Amended Complaint, at ¶4.

manufacturing a series of fraudulent "roundtrip" real estate deals whereby Stanford took a piece of Antiguan property (believed to be the Maiden Island and Guiana Island projects Defendants helped underwrite the insurance on) he purchased for $63 million and transferred it to some entities who "booked" it at $3.2 billion and then transferred shares in those entities back to SIB.

68. In October, 2008 Stanford Financial began suffering liquidity problems caused by a "run" on SIBL that prevented SIBL from complying with client requests for transfers of funds. SIBL's CD transaction records indicate that approximately $2 billion in CDs was paid to investors for principal and interest from January 1, 2008 through February 17, 2009. This had a huge impact on the ability of the FAs at Stanford Financial to keep clients pacified. Nevertheless the Stanford Financial FAs were ordered to continue to sell the CDs and bring in new money.

69. In January 2009, as Pershing was helping SGC re-route clients funds to SIBL through Bank of Houston in the wake of the Madoff scandal, Venezuelan financial analyst Alex Dalmady performed a rudimentary review of SIBL's returns over the years, taken from SIBL's Annual Reports (the same ones Defendants reviewed every year), as a favor for a friend, and then published his findings in a Venezuelan magazine under the title "Duck Tales", which was then re-published in various blog postings. Dalmady concluded that Stanford Financial was nothing but another Ponzi scheme – a Ponzi "duck". The cat was out of the bag.

70. The Madoff fiasco intensified the SEC's 3 year long investigation of Stanford. In advance of a deposition before the SEC, Stanford Financial officials met with outside counsel in Miami on February 4, 2009. Two days later, on February 6, 2009, Allen Stanford's old friend Frans Vingerhoedt sent Allen Stanford an e-mail, copying David Nanes as well, that reads in part, that "*things are starting to unravel quickly on our side in the Caribbean and Latin America…[w]e need to come up with a strategy to give preference to certain wires to people of influence in certain countries, if not we will see a run on the*

bank next week …[w]e all know what that means. There are real bullets out there with my name on, David's name and many others and they are very real…[w]e are all in this together).

71. On February 17, 2009 the United States Securities and Exchange Commission ("SEC") filed a Complaint against SGC and SIBL, as well as against Mr. Stanford and Mr. Davis, in the U.S. District Court for the Northern District of Texas, alleging a "massive Ponzi scheme of staggering proportions". The SEC obtained an injunction and froze the assets of the Stanford Financial group and appointed as Receiver, Ralph Janvey to liquidate the Stanford Financial group of companies.

72. The SEC, through its Second Amended Complaint, alleges a fraud of shocking magnitude. The SEC alleges that Stanford, together with his co-conspirators, engineered and carried out a decades-long scheme to convert Plaintiffs' and the Class' investments in Stanford Financial and SIBL into his own personal "piggy bank" to fund his extravagant lifestyle, including paying for his private harem of women and their children; a fleet of jets; yachts; and mansions in several different countries, as well as funding all of the massive Caribbean real estate projects Stanford had dreamed up but never disclosed to the investors. On June 18, 2009 Stanford, Pendergest-Holt, Lopez, Kuhrt and King were indicted on 21 counts including wire and mail fraud, obstruction of an SEC investigation and money laundering. Jim Davis has since pled guilty to, *inter alia*, securities fraud.

IV. INVESTOR CLASS PLAINTIFFS' CLAIMS

A. Basis for Claims

73. All of the Class Plaintiffs invested in the Stanford Ponzi scheme by purchasing CDs or placing their money in other depository accounts with SIBL through their brokerage accounts at SGC, or trust accounts at SFIS, or IRA accounts held at STC. Over the years that Plaintiffs purchased and maintained investments in SIBL, Plaintiffs were repeatedly and uniformly told, either directly by Stanford Financial FAs or via Stanford Financial promotional materials, that, *inter alia*: (1) an investment in SIBL

was safer than investing in U.S. banks because SIBL did not make loans but instead invested in a portfolio focused on safe and highly liquid instruments; (2) the assets held in SIBL's investment portfolio were more than sufficient to cover any and all CD liabilities; (3) SIBL was fully and adequately regulated by the Antiguan FSRC; and (4) that an investment in SIBL was completely safe and secure because it was guaranteed and insured by Lloyd's, was audited by an "outside" audit firm and subjected to regular, "stringent" risk management examinations. All of this was false.

74. During the time that Plaintiffs purchased and maintained investments in SIBL, Stanford Financial sales representatives and promotional materials repeatedly and uniformly omitted to inform Plaintiffs that, *inter alia*: (1) SIBL was not regulated by the U.S. or any other government; (2) Plaintiffs' investments in SIBL were not insured; (3) no one knew where Stanford was investing the money or what assets comprised the SIBL portfolio; (4) Stanford Financial was operating illegally as an unregistered investment company (whose contracts were thus void under § 47 of the Investment Company Act) soliciting and selling unregistered securities by, from and through Houston, Texas; (5) that SIBL was not invested in safe secure and liquid instruments, but rather was investing its clients' money in speculative Caribbean real estate ventures; and/or (6) that SIBL was not adequately regulated by the FSRC or any other entity and was audited only by a one man "mom and pop" audit shop under the control of Allen Stanford.

75. Based on the representations and omissions of material fact made to Plaintiffs repeatedly and uniformly over the years, both in person by Stanford Financial FAs and via Stanford Financial promotional materials, Plaintiffs decided to invest money in, and maintain investments in, the SIBL CDs from at least 2006 through 2009.

76. Horacio and Annalisa Mendez Plaintiffs were investor clients of SGC and STC. In October 2007 the Mendezs were introduced to an SGC Financial Adviser named Patrick

Cruickshank who operated out of the SGC Austin branch office. Cruickshank made all of the typical representations to the Mendezs about Stanford Financial that were part of the training instilled in such advisers by Stanford Financial, as described herein. During that initial meeting, Cruickshank convinced Mendezs to invest their money in CDs issued by SIBL. Cruickshank represented to the Mendezs that SIBL was "safer than a U.S. Bank", because it had Lloyds of London Bonded insurance. He also represented that SIBL had Directors' & Officer's Liability policy; a depository insolvency policy insuring funds held in correspondent financial institutions; and that SIBL was aiming for Basel II status (that most Banks held only Level 1). He also represented to Mendezs that the Bank did not make loans like a regular bank, but instead invested in a portfolio of highly liquid assets, such that the CDs could be redeemed on just a few days notice.

77. During this sales presentation, Cruickshank, like all other Stanford Financial advisers, neglected to inform Mendezs that SIBL was not, in fact, a real bank, but, rather, operated more like a mutual fund or hedge fund. Based on the representations made to them by Cruickshank, Plaintiffs made the decision to invest their retirement savings in the SIBL CDs. On October 5, 2007, Plaintiffs invested $100,000 with Stanford Financial, wiring the money to Pershing LLC. With that money, Plaintiffs, following the advice of Cruickshank, purchased one SIBL "Flex CD" in the amount of $50,000 (SIBL Acc # 173185); and also purchased another SIBL "Fixed CD" also in the amount of $50,000 (SIBL Acc # 173184).

78. Then in February 2008, when Plaintiff Horacio Mendez changed employers, Cruickshank convinced Mendezs to "roll over" Mr. Mendez's IRA savings account into a new IRA account at STC. Thus on February 5, 2008, Plaintiffs wired $300,000 via Pershing to an STC account at Hancock Bank of Louisiana for further credit to a bank account controlled by SIBL for further credit to the Mendez's new SIBL Account #300822.

79. Later in 2008, after being reassured by another SGC adviser in the Austin office that their investments in Stanford Financial continued to be safe and secure, Mendezs made another investment in SIBL – this time using money that Mrs. Mendez was holding for the benefit of her nieces. On September 17, 2008, Mendezs wired $24,137.32 to their SGC account in custody at Pershing, and then Pershing wired that money out to SIBL Account #173185 to purchase the CD in that amount. All that money is now lost.

B. Class Allegations

80. Class Plaintiffs request this case be certified as a class action pursuant to FRCP 23. Thousands of investors still had money invested in the SIBL CDs and other depository accounts at SIBL through SGC and/or STC as of February 2009. The numbers of affected investors are so numerous that joinder of all members is impracticable. There are common questions of law and fact that are common to the class and these common questions predominate over individual issues. The Named Plaintiffs' claims are typical of the class claims. The Named Plaintiffs have no interest adverse to the interests of other members of the Class. The Named Plaintiffs will fairly and adequately protect the class' interests. The Named Plaintiffs have retained counsel experienced and competent in the prosecution of class action and complex international securities litigation.

81. Pursuant to FRCP 23(a) and (b)(3), the Court should certify the following classes and subclasses:

(i) a class of all investors who, as of February 16, 2009, had purchased and still held Certificates of Deposit ("CD") and/or otherwise maintained deposit accounts with Stanford International Bank Ltd. ("SIBL") through brokerage accounts established at SGC or IRA accounts at Stanford Trust Company ("STC"), and, in the alternative, certification of:

(ii) a class of all investors who, as of February 2009, had purchased and still held CDs and/or

otherwise maintained deposit accounts with SIBL through brokerage accounts established at SGC, or IRA accounts at Stanford Trust Company ("STC"), and whose funds were wire transferred by Pershing to SIBL to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009; and, in the further alternative, certification of:

(iii) a class of all investors who, as of February 2009, had purchased and still held CDs and/or otherwise maintained deposit accounts with SIBL through brokerage accounts established at SGC, or IRA accounts at Stanford Trust Company ("STC"), and whose funds were wire transferred by Pershing to SIBL to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009 from cash funded by the investors into their SGC brokerage accounts;

(iv) a class of all investors who, as of February 2009, had purchased and still held CDs and/or otherwise maintained deposit accounts with SIBL through IRA accounts established at STC, and whose funds were wire transferred by Pershing to SIBL to fund the purchase of SIBL CDs between December 27, 2005 and February 16, 2009 through their STC IRA accounts;

AND such other classes or sub-classes as the Court may determine.

Excluded from the class are:

a. Defendants, and their employees and agents; and

b. Any officer, director, employee, or promoter of Stanford Financial, including SIBL, SGC, SFIS, or STC as those entities have been defined herein

82. The court should certify the class pursuant to FRCP 23(b)(3) because questions of law or fact common to the members of the class predominate over any questions affecting only the individual members, and a class action is superior to the other available methods for the fair and efficient adjudication of the controversy. Indeed, this is a case of "fraud created the market" and

fraud on the regulators because Stanford's fraud could not have existed or flourished were it not for the fraud Stanford committed on regulators around the world and the fraud Stanford committed by misleading investors into believing that their investments in SIBL were backed up by a liquid portfolio of assets. The Class Plaintiffs and the Class relied on the integrity of the market in deciding to invest in the SIBL CD's. Many of the investors who are class members have amounts invested which are too small to justify the cost and expense of individual litigation and can only be assisted by a class action mechanism.

C. Discovery Rule/Inquiry Notice

83. The SEC filed an action against Allen Stanford and SIBL *et al.* on February 17, 2009, and on that same day the Receiver was appointed. Plaintiffs did not discover, and could not with the exercise of reasonable diligence have discovered, the true nature of the injury caused by Stanford Financial, SIBL, SGC, STC, or Defendants until then. Moreover, the wrongful acts and conspiracy by Pershing was inherently undiscoverable, and Plaintiffs were not aware of facts that would have put them on inquiry notice as to Pershing's role in Stanford's fraud until now.

D. Class Causes of Action

(THE FOLLOWING CAUSES OF ACTION ARE PLEAD ON BEHALF OF THE CLASS PLAINTIFFS INDIVIDUALLY AND ON BEHALF OF A CLASS OF ALL OTHERS SIMILARLY SITUATED)

COUNT 1: Participation in Breach of Fiduciary Duty

84. As a registered investment adviser, SGC owed a fiduciary duty to the Class Plaintiffs and the Class as a matter of law. As a fiduciary trust company holding IRA accounts, STC owed fiduciary duties to the Plaintiffs and class of STC investors. SGC and STC breached their respective fiduciary duties to Class Plaintiffs and the Class by advising them to invest their money in the SIBL CDs, because such investments were entirely imprudent and unsuitable for any investor and because

SGC and STC were financially incentivized to recommend the related party SIBL CDs above other investment products. SGC and STC did not have the basic financial information regarding the SIBL investment necessary to make such investment recommendations to Class Plaintiffs and the Class, but instead made the recommendation to purchase the SIBL CDs based on the huge, above-market commissions SGC and STC were paid by SIBL to promote the CDs. Pershing knew that SGC and STC owed fiduciary duties to Class Plaintiffs and the Class and knew that SGC and STC were breaching said fiduciary duties, as described herein. With full knowledge that SGC and STC were breaching their fiduciary duties to Class Plaintiffs and the Class, Pershing conspired with and aided and abetted and otherwise participated in SGC'sand STC's breaches of those duties by the conduct alleged herein. Pershing's participation in breaches of fiduciary duties are a proximate cause of actual damages to Class Plaintiffs and the Class. Pershing knew or should have known that their aiding, abetting and participation in the breaches of fiduciary duties set out above likely would result in extraordinary harm to the Class Plaintiffs and the Class. Accordingly, Class Plaintiffs are entitled to recover exemplary damages in excess of the minimum jurisdictional limits of this court.

COUNT 2: Aiding and Abetting Violations of the Texas Securities Act

A. SALES OF UNREGISTERED SECURITIES

85. Pershing is liable as an "aider" for sales of unregistered securities to Plaintiffs. In particular, by its actions described herein, Pershing provided substantial assistance to SGC, STC and SIBL and made it possible for SGC, STC and SIBL to effectuate the sale of the CDs to Plaintiffs and others and materially aided SGC, STC and SIBL to sell unregistered securities to Plaintiffs from, by and through Texas. As argued by the SEC in its original Complaint, the CDs offered and sold by Stanford Financial and SIBL, with Defendant's participation, constitute "securities" under the relevant securities law jurisprudence, primarily the *Reves* test, precisely because the CDs were not

insured by the FDIC, or guaranteed by any similar government regulatory insurance regime. By agreeing to assist SGC, STC and SIBL to effectuate the sales of these securities products, Pershing acted recklessly and knew or should have known that said sales were illegal. But for Defendant's participation, SGC, STC and SIBL could not have sold unregistered securities to Class Plaintiffs and the Class from, by and through Texas.

86. Defendant had general awareness that it was assisting in the sale of unregistered securities from, by and through Texas. Defendant performed an extensive due diligence on Stanford Financial, and knew that SGC was based in Texas and was selling CDs issued by an offshore bank it controlled from Texas, and knew that SIBL did not function as a regular bank making loans but, rather, invested the CD proceeds in a private investment portfolio. Defendant also knew that the CDs being peddled directly from Houston, Texas had not been registered as securities with the SEC or TSSB, because Defendants knew that SIBL had filed for a limited Reg. D exemption for certain "accredited" U.S. investors only. Based on its due diligence, and the size of the CD offerings, and what SIBL was allegedly doing with the money, Pershing also knew that the Reg. D exemption did not apply and that Stanford Financial was operating as an unregistered mutual or hedge fund in violation of the Investment Company Act, selling unregistered investment company securities.

87. In assisting a Houston-based enterprise in the sale of unregistered securities, Defendant was at the very least subjectively conscious of a risk of illegality. None of the CDs sold to Plaintiffs were ever registered with the Texas State Securities Board and therefore they were sold to Plaintiffs as unregistered securities in violation of the Texas Securities Act. In assisting SGC and SIBL effectuate the sale of the unregistered securities from, by and through Texas, Defendant acted intentionally or with reckless disregard for the truth and the law. As a result of Defendant's conduct in materially aiding SGC and SIBL to sell unregistered securities from, by and through Texas,

Plaintiffs have lost their investments and are entitled to the statutory remedy of rescission. In the alternative, Defendants' violations of the Texas Securities Act are a proximate cause of actual damages to Plaintiffs, being the difference between their investments as stated in their last account statement and the amount Plaintiffs may receive from the receivership distribution.

88. Moreover, and despite SGC's scheme to evade compliance with the Texas Act by claiming a Reg D exemption, the global offering of CDs by Houston-based Stanford Financial to "accredited" U.S. investors was in fact an unregistered public offering made in violation of Article 581 of the Texas Act. It was an integrated offering under Texas securities laws, and, on information and belief, involved each of the following factors that made it a public offering and not a private offering exempt from registration:

a. The integrated offering involved general solicitation. This general solicitation by Stanford Financial through SGC, STC, SFIS and its U.S. affiliates, agents and brokers, as well by the foreign financial advisors, included general public advertisements, publicly distributed magazine articles, television and other communications and media published in print in Houston, Texas and distributed broadly for general distribution in the United States and abroad to offerees and purchasers of the CDs.

b. The integrated offering involved general solicitation through television advertisements, including advertisements broadcast in Texas, Louisiana and Florida, of Stanford Financial's products, including the CDs.

c. The integrated offering involved seminars and meetings conducted in the United States (including Texas, Louisiana, and Florida), Mexico and Venezuela and elsewhere in Latin America. The integrated offering was conducted through the use of sales seminars, "road shows," and meetings directed at potential offerees and purchasers.

d. The integrated offering involved offers to tens of thousands of offerees and purchases by thousands of offerees involving sums of money, in the billions of dollars, far in excess of that disclosed to the SEC in SIBL's Form D filing with the SEC. The integrated offering involved offers to, and purchases by, at least thousands of Texas, Louisiana, and Florida residents or those otherwise subject to Texas. Louisiana, or Florida law, as well as offers and sales to Mexican and Venezuelan residents in the Texas and Florida offices of Stanford Financial and/or SFIS.

e. The aggregate size of the sales of CDs during this period was approximately $7.2 billion. The aggregate size of the sales in the United States from this period was in excess of $1.5 billion. The number of investors purchasing the CDs in the U.S. under the Reg. D filing was far in excess of 1,000, and Pershing knew this because it wire transferred money from 1,200 different SGC accounts to buy the SIBL CDs.

f. The offering was made to investors with whom Stanford Financial/SGC had no pre-existing relationship, through brokers or affiliates of Stanford Financial who were paid substantial and excessive undisclosed commissions in connection with the CDs.

g. The offering was made to persons who did not qualify as "accredited United States investors"; and far more than 35 persons who did not qualify as "accredited United States investors" purchased the CDs; indeed the vast majority, at least $5 billion of the CDs, were sold to foreign citizens that did not qualify as "accredited United States investors".

B. SALES OF SECURITIES BY UNREGISTERED DEALERS

89. Defendant aided and abetted SIBL and Stanford Financial in the sale of securities to Plaintiffs from, by and through the State of Texas without being registered as a dealer, in violation of Sections 12(A), 33(A)(1), and 33(F)(2) of the Texas Securities Act. Specifically, and as alleged

herein, Defendant knew or should have known that the global conglomeration of entities known collectively as "Stanford Financial" was acting as a hedge or mutual fund without being registered as such under the Investment Company Act, and that the hedge or mutual fund was disguising itself as a bank (SIBL) and issuing hedge/mutual fund shares, disguised as CDs, to the general public from, by and through Texas and then pooling its customers' money together to make illiquid, speculative investments. The Stanford Financial "fund" made these sales without registering with the Texas State Securities Board as a dealer under Section 12(A).

90. Defendant intentionally and actively aided and abetted the Stanford Financial "fund" to operate in and from Texas to sell securities from, by, and through Texas, by means of the conduct described herein. With full knowledge that Stanford Financial was, directly or through its web of alter ego companies, including SIBL, acting as an unregistered investment company "fund" in Texas selling "fund" securities from, by, and through Texas, and that Stanford Financial/SIBL were being operated and "run" from Texas, Defendants aided and abetted, materially and substantially assisted, and perpetuated Stanford Financial and SIBL's violations of the Texas Securities Act by continuing to provide the wire transfer and other services described herein to effectuate the sale of the worthless CDs and fund the Ponzi scheme.

91. Defendant had general awareness that it was assisting the sales by an unregistered "fund" of unregistered "fund" securities from, by and through Texas. In assisting the sale of unregistered "fund" securities through a Houston-based enterprise, Defendants were, at the very least, subjectively conscious of a risk of illegality. In performing the acts described herein to aid and abet the sale of securities in Texas by an unregistered dealer, Defendant acted with the intent to perpetuate the sale of securities by an unregistered dealer, or acted with reckless disregard for the truth or the law. As a result of Defendant's conduct in aiding and abetting the sale of securities in

Texas by unregistered securities dealers, Plaintiffs have lost their investments and are entitled to the statutory remedy of rescission. In the alternative, Defendant's violations of the Texas Securities Act are a proximate cause of actual damages to Plaintiffs, being the difference between their investments in SIBL as stated in their last account statement and the amount Plaintiffs may receive from the receivership distribution.

C. UNTRUTH OR OMISSION

92. Defendants, acting with intent to deceive or with reckless disregard for the truth or the law, materially and substantially aided Stanford Financial and SIBL and their principals in the sale of uncovered securities through the use of untrue representations or materially misleading omissions, and also aided and abetted the fraudulent practices of registered investment advisers in violation of the TSA. In particular, and as set forth in the Davis Plea, Stanford Financial was a massive Ponzi scheme that was perpetuated by the continued sales of the SIBL CDs to unsuspecting investors like Plaintiffs. Stanford Financial led Plaintiffs, verbally and through written marketing materials prepared and disseminated via Stanford Financial's Houston office to believe that their money was being invested in safe, liquid investments that were insured, which was a material misstatement because the money was not invested in safe, liquid and fully insured investments, but rather was pooled together with other investors' money and used to finance Stanford Financial's principals' profligate lifestyles and to invest in long term, illiquid and high risk investments including real estate development projects in Antigua and elsewhere in the Caribbean. Moreover, Stanford Financial omitted to inform Plaintiffs that it was selling them unregistered securities and that it was operating as an unregistered, uninsured, illegal investment company "fund" in violation of the Investment Company Act and the Texas Securities Act.

93. Defendants had general awareness that they were involved in improper activity and that they were assisting the sale of unregistered securities from and through Texas. With knowledge that SGC and STC were misleading investors about the nature and risk of investments in related party bank SIBL, and with reckless disregard for the truth and the law, Defendants provided substantial assistance to SIBL and Stanford Financial in the effectuation of $500 million worth of CD purchase transactions as described herein, and thereby materially aided SGC and STC's sales of securities through the use of untruths and materially misleading omissions. Defendants were all subjectively aware of, and absolutely indifferent to, the risk posed by their conduct. In assisting the sale of securities through a Houston-based enterprise, Defendants were, at the very least, subjectively conscious of a risk of illegality. In short, Defendants' actions as described herein allowed SGC and STC (and SIBL) to continue to sell securities to Plaintiffs from and through Texas using untruths and materially misleading omissions.

94. In performing the acts described herein to aid and abet the sale of securities through the use of untruths and materially misleading omissions, Defendants acted with the intent to perpetuate the sale of securities by Stanford Financial, or acted with reckless disregard for the truth or the law. In fact, Defendants acted with wanton and arrogant disregard for the truth and for the protections afforded by the Texas Securities Act by engaging in the conduct described herein. Defendants' actions in aiding and abetting Stanford Financial's fraud. As a result of Defendants' conduct in aiding and abetting the sale of securities from, by and through Texas using untruths and materially misleading omissions, Plaintiffs have lost their investments and are entitled to the statutory remedy of rescission. In the alternative, Defendants' violations of the Texas Securities Act are a proximate cause of actual damages to Plaintiffs, being the difference between their investments in SIBL as stated in their last account statement and the amount Plaintiffs may receive from the

receivership distribution.

D. CO-CONSPIRATOR LIABILITY

95. Defendants are jointly and severally liable as co-conspirators for Stanford Financial and SIBL's primary violations of the Texas Securities Act. In particular, Defendants knowingly combined together and with others at Stanford Financial to assist Stanford Financial to sell unregistered securities from, by and through the State of Texas using untrue representations or materially misleading omissions pertaining to insurance coverage for SIB. As described herein, Defendants took various overt acts designed to assist Stanford Financial to accomplish the goal of selling CDs from, by and through the State of Texas and operate as an unregistered securities dealer selling unregistered securities from Texas. Defendants' conspiracy with Stanford Financial to violate the Texas Securities Act is a proximate cause of rescission and/or actual damages to Plaintiffs, being the difference between their investments in SIBL as stated in their last account statement and the amount Plaintiffs may receive from the Receivership distribution.

COUNT 3: Negligence/Gross Negligence

96. In the alternative, Defendants committed various acts and/or omissions of negligence which were a proximate cause of Plaintiffs' damages. Such acts and/or omissions violated the standard of care and the duty owed by a securities custodian exercising reasonable prudence to ensure that it does not transfer custodial funds into a fraud or Ponzi scheme when it knows or has reason to suspect the existence of a fraud or Ponzi scheme. In this case, Pershing suspected and had reason to know that SIBL was a Ponzi scheme since June 2007, yet turned a blind eye and instead recklessly transferred investors' money to purchase the SIBL CDs all the way until January 13, 2009.

97. Each of the acts and/or omissions by Pershing described herein, singularly or in combination with others, constitutes negligence and each proximately caused the incident made the

basis of this action and damages sustained by Plaintiffs. Moreover, the negligence of Defendant in vioating the standard of care, as set out above, constitutes negligence as a matter of law.

98. Defendant's actions and inaction also constitute gross negligence. Defendant's wrongful acts were aggravated by the kind of conduct which, when viewed objectively from Defendant's perspective at the time the acts occurred, involved an extreme degree of risk, considering the probability and magnitude of the potential harm to Plaintiffs and others. Defendant was subjectively aware of the risks involved, but proceeded with conscious indifference to their duties and to the rights and welfare of Plaintiffs. As a result Plaintiffs seek exemplary damages for Defendant's gross negligence.

VII. RESPONDEAT SUPERIOR

99. Defendant is liable for the tortious and negligent acts of its employees, including without limitation, John Ward. Ward and the other Pershing employees identified in this Complaint were acting within the course and scope of their employment with Defendant, and in furtherance of their respective principals' businesses, when they engaged in the wrongful conduct described herein.

VIII. ACTUAL DAMAGES

100. Plaintiffs and the Class have suffered the loss of at least $500 million that was proximately caused by the wrongful conduct of Defendants as described herein. Defendants are jointly and severally liable for the injury caused by Allen Stanford, Stanford Financial and SIBL under Texas common law of joint and several liability as well as under the Texas Securities Act.

IX. PUNITIVE DAMAGES

101. The wrongful conduct set forth herein constitutes fraud or malice, willful acts or omissions, or gross neglect within the meaning of §41.003, Tex. Civ. Prac. & Rem. Code. Plaintiffs are entitled to recover punitive damages in an amount necessary to punish the Defendant and to deter

similar conduct of others in the future.

102. All conditions precedent to filing this Complaint have been met.

X. JURY DEMAND

103. Plaintiffs demand a trial by jury.

PRAYER

WHEREFORE, Class Plaintiffs pray the Defendants be summoned to answer this Complaint, that this action be certified as a class action, and that the case be tried before a jury and that upon final judgment the classes and sub-classes as set forth in each cause of action hereof recover their damages as alleged herein, including their actual damages, punitive damages, and their costs and expenses of suit, including reasonable attorneys' fees. Class Plaintiffs pray for such other relief to which they may be justly entitled.

Respectfully submitted,

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CERTIFICATE OF SERVICE

On February 16, 2011, 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 will serve Defendants individually or through their counsel of record, electronically, or by other means authorized by the Court or the Federal Rules of Civil Procedure.

/s/ Edward C. Snyder
Edward C. Snyder