UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re: Consolidated Wealth Holdings, Inc., *et al.* Debtor.	§ § § § § § § § §	Case No. 22-90013 (DRJ) Chapter 11 (Joint Administration Requested)
SANDRA VINCENT, KYLE O'NEAL, TIM FITZGERALD, JOSEPH GRENS, JOSEPH PELLE, and ROSALIE BEECHLER, individually and on behalf of all others similarly situated, *Plaintiffs,* CONSOLIDATED WEALTH HOLDINGS, INC., CONSOLIDATED WEALTH MANAGEMENT, LTD., COORDINATED WEALTH MANAGEMENT, LLC f/k/a CONSOLIDATED WEALTH MANAGEMENT, LLC, and GRANITE FINANCIAL, INC. *Defendants.*	§ §	Adversary No. ________________

<u>CLASS ACTION COMPLAINT</u>

COMES NOW Sandra Vincent, Kyle O'Neal, Tim Fitzgerald, Joseph Grens, Joseph Pelle and Rosalie Beechler ("Plaintiffs"), individually and on behalf of all others similarly situated, by and through their undersigned counsel, bring this Class

Action Complaint against Defendants Consolidated Wealth Holdings, Inc., Consolidated Wealth Management, Ltd., Consolidated Wealth Management, LLC, Coordinated Wealth Management, LLC and Granite Financial, Inc. (collectively, "Defendants"), and complain and allege upon personal knowledge as to themselves and their own acts and experiences and, as to all other matters, upon information and belief, including investigation conducted by counsel.

I.
JURISDICTION AND VENUE

1. The Court has jurisdiction over the Complaint pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. § 1409.

2. Plaintiffs bring this securities class action on behalf of all persons and entities that, during the alleged class period, purchased or otherwise acquired fractional or whole life settlement interests from Defendants or paid monies to cover the insurance premiums on the underlying policies of the life settlements issued or sold by Defendants. This case arises out of Defendants' scheme to offer and sell interests in life insurance policies to investors, known as life settlements, in a deceptive and fraudulent manner.

II.
INTRODUCTION

3. Life settlement investments are securities under the Texas Securities Act, and Defendants are bound by the securities laws in connection with their promotion and sale. *Life Partners, Inc., et al. v. Arnold, et al.*, 464 S.W. 3d 660 (Tex. 2015).

4. For years, Defendants sold investment products known as life settlements to investors throughout the country, including to residents of the State of Texas.

5. A life settlement is an investment transaction in which the owner of a life insurance policy sells the policy to a third party for an amount that exceeds the policy's cash surrender value but is less than the face value.

6. Life settlement issuers, such as Defendants, purchase life insurance policies from persons who no longer want to maintain their own life insurance policies ("viators"), and then re-sell them to investors like Plaintiffs. Life settlement issuers market the policies to investors by providing life expectancy reports on a viator, which estimate when a viator will die and an investor's projected rate of return. The life expectancy projection is the most critical factor in determining whether a life settlement is a wise investment.

7. In order to make their life settlements more marketable, Defendants distinguished their products from other life settlement issuers. Because the life expectancy calculation is so important in determining whether to invest in a life settlement, Defendants devised a way to lure investors into their life settlement

investments. Defendants added a feature absent from most life settlement investments: financial guaranty bonds on underlying insurance policies that protect against the risk of a viator outliving his or her life expectancy.

8. Defendants marketed these guaranty bonds as a means to protect investors from the inaccuracies in projecting when any particular individual will die by providing a guaranteed payment if a viator outlived the projected life expectancy.

9. Unfortunately for investors, the companies Defendants relied on to calculate life expectancies and provide the bonded guarantee were both frauds. One of the life expectancy companies Defendants engaged to provide life expectancy reports was indicted for fraud, and its owner was convicted and sentenced to a lengthy prison term. Further, the Costa Rican bonding company was a scam in its own right. The company was indicted by both the United States Department of Justice and the Securities and Exchange Commission (the "SEC") and placed into receivership.

10. The life expectancies Defendants provided were all wrong and all severely understated. Understating the life expectancies is an obvious tactic designed to make Defendants more money—the shorter the life expectancy, the higher the price Defendants can command when they sell life settlement securities to investors.[1] The end result of the underestimated life expectancies was that ongoing premium payments become necessary to keep the life insurance policies underlying investors'

[1] For example, a policy with a face value of $1,000,000 on a viator with a life expectancy of two years can be sold to investors for more money than a policy with a face value of $1,000,000 on a viator with a life expectancy of five years. Providing a lower life expectancy estimate allows the Defendants to increase their profits between the amount they pay a viator for a life insurance policy and the amount they sell fractional life settlement securities to their investors.

life settlements from lapsing. Investors were counting on the bonding company to take over the premium payment obligations, but that company is defunct. Each of these events—the improper calculation of life expectancies and the sale of worthless bonds—would independently have serious financial effects. In this instance, the collective repercussions of both are devastating. Investors have lost millions of dollars and are in peril of losing their entire investments.

11. Undeterred by the exposure of their gross malfeasance, Defendants continued on a path of deceit. Instead of coming clean with investors when they became aware of the fraud perpetrated by the life expectancy and guaranty bond companies, Defendants continued to hide material information from investors in order to conceal their own fraudulent activity.

12. Rather than telling Plaintiffs and other investors that the bonding company was a fraud, Defendants decided to play a dangerous game with investors' money. Defendants took it upon themselves to start making the premium payments for investors ***without investors' permission or knowledge***. Defendants intentionally concealed this information from investors in order to maintain the façade that their investments were safe. In other words, Defendants transformed their business model into the long con—hoping one of the viators dies before any of the investors catch on.

13. In April 2018, Defendants lost the game of chicken they had been playing. Defendants ran out of money before the life insurance policies paid them enough to continue their scam. Defendants had no choice but to come clean with

investors and start asking them to foot the bill for the premiums that Defendants could no longer pay.

14. While some investors did make the payments, many were unwilling to throw what appeared to be good money after bad. Some investors simply did not have the extra funds to invest even if they wanted to. As many investors were unable to or otherwise stopped making the necessary payments to Defendants to fund the premiums on the viators' life insurance policies, Defendants told those investors that they had forfeited their interests in the life settlements to Defendants. These abandoned positions now purportedly had no owner—at least temporarily.

15. What really happened was that these "forfeited" positions allowed Defendants to acquire—at no cost—the abandoned positions in the life settlements—positions that investors had paid Defendants to purchase. It was a great deal for Defendants—(a) investors had paid Defendants for the life settlements in the first instance; (b) Defendants made an undisclosed fee from those sales; (c) the viator was now several years closer to death; and then (d) Defendants swoop in and grab the positions the investors abandoned for nothing. All Defendants had to do was continue to lie, obfuscate and conceal the truth about the fraudulent life expectancies and bonding company.

16. Defendants were willing to make a few payments necessary to keep the life settlements going because they hoped for a big payday—one that would be financed by picking up policy interests from the defaulted investors and having

existing investors help keep the underlying insurance policies in place long enough so that they could collect when a viator died.

17. Unfortunately for everyone—Defendants and investors alike—the life settlements have not generated enough cash to allow Defendants to continue this scheme until they can reap the benefits. The policies underlying the life settlements were in danger lapsing, and Defendants were forced to notify investors that they are "out of money." The music has stopped, and there are no chairs for anyone.

18. In a last-ditch effort to prevent the truth from being revealed, Defendants began forcing investors to abandon life settlements that they have held for years, regardless of how close to death the viator may have been and how close the policy may have been to actually paying out. Defendants shuffled around the monies the remaining investors were willing to hand over in order to consolidate everyone who was willing to make the payments necessary to maintain the life settlements into a smaller number of life settlements.

19. The payments those investors now make are being redirected into different life settlements—brand new investments—that are backed by different life insurance policies. This shell game of matching new monies from existing investors to life settlements different than those the investors initially purchased is not being done because it is in the best financial interests of the investors or because the funds are being directed to a better investment. Instead, it was done to allow Defendants to continue to perpetrate a fraud.

20. Defendants crammed investors into these new life settlements without providing them with sufficient information about the most important factor a life settlement investor needs to make an informed decision: the life expectancy of the viator. In so doing, Defendants made material misrepresentations and omissions in connection with the offer and sale of life settlement securities in violation of Section 10(b) of the Exchange Act of 1934 and Securities and Exchange Act Rule 10(b)-5 promulgated thereunder.

21. Plaintiffs, on behalf of themselves and all similarly situated investors, seek compensatory, injunctive and equitable relief.

II.
PARTIES

22. Plaintiff Sandra Vincent is a citizen of the State of Texas. In 2007, Ms. Vincent purchased fractional life settlement securities from Defendants. In 2018, Ms. Vincent received notice from Defendants stating that they were "out of money" and that, in order to avoid forfeiture of her fractional interests in certain insurance policies, she would be required to make quarterly payments to finance the associated premiums. Defendants have forced her to abandon one of the original life insurance policies in which she had initially invested, consolidate her investment with other investors who had been paying premiums, and purchase an interest in a different life settlement investment.

23. Plaintiff Kyle O'Neal is a citizen of the State of Texas. In 2008, Mr. O'Neal purchased fractional life settlement securities from Defendants. In 2018, Mr. O'Neal received notice from Defendants stating that they were "out of money" and

that, in order to avoid forfeiture of his fractional interests in certain insurance policies, he would be required to make quarterly payments to finance the associated premiums. Defendants have forced him to abandon the original life insurance policy in which he had initially invested, consolidate his investment with other investors who had been paying premiums, and purchase an interest in a different life settlement investment.

24. Plaintiff Tim Fitzgerald is a citizen of the State of Illinois. In 2008, Mr. Fitzgerald purchased fractional life settlement securities from Defendants. In 2018, Mr. Fitzgerald received notice from Defendants stating that they were "out of money" and that, in order to avoid forfeiture of his fractional interests in certain insurance policies, he would be required to make quarterly payments to finance the associated premiums.

25. Plaintiff Joseph Pelle is a citizen of the State of Pennsylvania. In 2008, Mr. Pelle purchased fractional life settlement securities from Defendants. In 2018, Mr. Pelle received notice from Defendants stating that they were "out of money" and that, in order to avoid forfeiture of his fractional interests in certain insurance policies, he would be required to make quarterly payments to finance the associated premiums.

26. Plaintiff Joseph Grens is a citizen of the State of Illinois. In 2008, Mr. Grens purchased fractional life settlement securities from Defendants. In 2018, Mr. Grens received notice from Defendants stating that they were "out of money" and that, in order to avoid forfeiture of his fractional interests in certain insurance

policies, he would be required to make quarterly payments to finance the associated premiums.

27. Plaintiff Rosalie Beechler is a citizen of the State of Texas. In 2009, Ms. Beechler purchased fractional life settlement securities from Defendants. As the life expectancy estimates Defendants obtained on the underlying insurance policies associated with Ms. Beecher's life settlement investments were fraudulent and grossly understated, Ms. Beechler has been forced to pay premiums to maintain her life settlement investment interests for an extended period of time.

28. Defendant Consolidated Wealth Holdings, Inc. is the debtor-in-possession in Case No. 22-90013 and is a Delaware corporation with its principal place of business located at 11200 Broadway Street, Suite 2705, Pearland, Texas 77584.

29. Defendant Consolidated Wealth Management, Ltd. is a Delaware limited company with its principal place of business located at 11200 Broadway Street, Suite 2705, Pearland, Texas 77584.

30. Defendant Coordinated Wealth Management, LLC f/k/a Consolidated Wealth Management, LLC is a Texas limited liability company with its principal place of business located at 11200 Broadway Street, Suite 2705, Pearland, Texas 77584. Upon information and belief, Defendant Consolidated Wealth Management, LLC was subsequently renamed to Coordinated Wealth Management, LLC.

31. Defendant Granite Financial, Inc. is a Delaware corporation with its principal place of business located at 11200 Broadway Street, Suite 2705, Pearland, Texas 77584.

III.
COMMON FACTUAL ALLEGATIONS GIVING RISE TO PLAINTIFFS' CLAIMS

How Life Settlements Were Packaged And Sold

32. In the late 1980s, companies created a secondary market for buying and selling life insurance policies. A new investment product was fashioned by purchasing life insurance policies from those willing to sell them at a price discounted from the face value and selling fractionalized interests backed by the policies' proceeds to investors who would collect the face value of the policy at the time of a viator's death. These transactions became known as "viatical" or "life" settlements.

33. Much like investors in other asset-backed securities, life settlement investors do not actually own the life insurance policies. The life settlement issuer stands in the middle of the transaction between the viator and the investors, and the issuer or a third-party acting on its behalf owns the life insurance policies.

34. The life settlement issuer, Defendants in this instance, is charged with maintaining those policies and collecting death benefits. Generally, investors pay their proportional share of the "acquisition cost"[2] and premiums are placed in an

[2] In most instances, the policy acquisition cost is comprised of the following elements: (a) profits for the life settlement issuer; (b) fees/commissions; (c) fees for calculating the life expectancy of the viator; (d) fees charged by the escrow company; (e) future premiums placed in escrow for a time period equal to the life expectancy; and (f) the amount of money paid to the viator. How this money is allocated to these various expenses is completely unknown to the investor and exclusively within the control of the life settlement issuers.

escrow account for some predetermined number of years—usually the life expectancy of a viator. For many life settlements, if a viator outlives the projected life expectancy, investors are required to pay their pro rata portion of any additional annual premiums to the life settlement issuer, and the life settlement issuer in turn passes those premiums along to the life insurance company.[3] The life settlement issuer is charged with monitoring the viator, submitting a death benefit claim to the insurance company when the viator dies and passing along the pro rata shares of the death benefits to investors. Investors are provided with limited information about the viator, and the life settlement issuer controls the entire transaction. Without the life settlement company to aggregate investors, maintain the policies and distribute death benefits, the life settlement investments become worthless.

35. The investment value of a life settlement depends on an issuer's management of the longevity risk and transparency with investors about the nature and extent of that risk. The issuer of the life settlement must honestly and conscientiously determine a realistic life expectancy estimate for each viator. Realistic life expectancy estimates must be based on an independent evaluation of a viator's medical records and state of the art actuarial methodologies.

36. The inherent investment risk of a life settlement is the possibility that a viator will outlive the projected life expectancy ("longevity risk"), and investors cannot make an informed investment decision about the value of a life settlement

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[3] This is the normal business model for life settlement companies. Unlike the Defendants, most life settlement companies do not offer bonds (or reinsurance) to eliminate the investors' requirement to pay their pro rata portion of ongoing premiums.

without having an accurate life expectancy estimate. In short, there is an inverse relationship between the life expectancy of a viator and what a life settlement is worth. If a viator outlives the projected life expectancy, then the return of the life settlement decreases because investors have to pay additional and escalating premiums over a prolonged period. Life settlement issuers require those additional premium payments so that they can keep the policies underlying the life settlements from lapsing. Investors are required to make the premium payments or they forfeit their interests in the life settlements.

Defendants' Life Settlements

37. Defendants have sold tens of millions of dollars of life settlement securities to hundreds, if not thousands of investors, including to residents of the State of Texas.

38. Plaintiffs and other investors deposited monies to pay the initial acquisition cost of the life settlement investment. In exchange for their money, Plaintiffs and other investors acquired a life settlement security backed by the proceeds of the underlying life insurance policies.

39. Defendants never disclosed to Plaintiffs and other investors how much money a viator was paid for his or her insurance policy. Defendants also never disclosed to Plaintiffs and other investors how much money Defendants collected in fees for their services. Plaintiffs and other investors were only provided an "acquisition cost" for the security and then provided documents to memorialize that investment. The acquisition cost is a black box and only Defendants know how those

funds are allocated. The allocation of the acquisition cost was never disclosed to investors.

40. As part of the sales pitch, Defendants boasted that their life settlements were a "safe investment," and were: (a) immune from stock market volatility, (b) insulated from the erosion of bond yields, and (c) protected from downturns and collapses of the real estate market. Defendants expressed their guarantee to investors in a pithy and memorable rhyme: "[we] provide a rate and a date (15% and 4 years)."

41. Defendants told investors that they minimized the longevity risk of their life settlement investments by arriving at life expectancies by obtaining estimates from at least two independent medical reviewing companies. Defendants also informed investors that all insurance policies they acquired were accompanied by a life expectancy certificate.

42. To ensure that investors would not have the obligation of paying insurance premiums in the event a viator lived past the projected life expectancy, Defendants informed investors that their life settlement securities were different because they had a reinsurance policy—in the form of a guaranty bond—on every life settlement. Theoretically, if a viator outlived the projected life expectancy, the bonding company would become obligated to pay the face value of the underlying policy to the Defendants, who would then in turn use the funds to pay investors their share of the proceeds.

43. Defendants' bonded life settlement securities purportedly offered a solution to the problem of a viator outliving the projected life expectancy. It offered a fixed maturity date for the life settlements that was backed by a bond.

44. Purportedly to address investors' concern about safety, Defendants informed investors that they do not take possession of clients' investments. Instead, once Defendants acquired a life insurance policy from the secondary market, they place the policies into the care of a trustee who, for a sizeable fee, becomes the custodian of the policies.

45. Although they do not take physical or constructive receipt of investors' funds, Defendants are the entities responsible for corresponding with investors regarding the status of investments and issuing premium call notices to ensure that the insurance policies are kept in force.

Cracks Begin To Appear

46. Defendants told investors that they had hired reputable third parties to perform analyses of the medical histories of the viators. These analyses reportedly determined the estimated longevity of the viators and thereby allowed Defendants to estimate the date that the viators would die (i.e., when the death benefits could be collected).

47. One of the medical reviewing companies Defendants hired and relied on to conduct life expectancy analyses was Midwest Medical Review LLC ("Midwest Medical").

48. Midwest Medical was owned and controlled by convicted felon George Kindness. In November 2003, a federal grand jury in the United States District Court for the Western District of Tennessee indicted Kindness on twenty-one counts involving conspiracy and fraud. The indictment also alleged that Kindness falsely represented himself to be a medical doctor. Kindness pled guilty to one of the counts of the indictment against him in September 2006.

49. Notably, Kindness was indicted and pled guilty to one count in the indictment *prior to* the time in which Defendants employed him and Midwest Medical as their life expectancy provider.

50. Midwest Medical and George Kindness have been previously accused of providing inaccurate life expectancies that incorrectly and falsely predicted the dates that viators will pass away. *S.E.C. v. Mutual Benefits Corp.*, 408 F.3d 737 (11th Cir. 2005); *S.E.C. v. Secure Investment Services, Inc.*, Case No. 2:07-cv-01724-LEW-CMK (E.D. Cal. 2007); *S.E.C. v. American Settlement Associates, et al.*, Case No. 4:10-cv-00912 (S.D. Tex. 2010). Significantly, all of these cases brought by the SEC resulted in the appointment of a receiver to protect investors.

51. Despite Kindness's indictment and fraudulent misconduct in connection with life expectancy certificates, Defendants did not disclose to potential investors that Kindness was a convicted felon, not a medical doctor or that Midwest Medical's life expectancy estimates were unreliable. Defendants knew or certainly should have known Kindness was a convicted felon before they engaged his company's services.

52. Defendants' bonded life settlement securities were predicated on falsely certified and inaccurate life expectancy estimates provided by Midwest Medical and George Kindness.

53. Although the life expectancies associated with investors' life settlement securities were inaccurate and falsified, investors should not have had to worry about the risk of a viator living past his or her life expectancy and the payment of future insurance premiums. Defendants' life settlement products were supposed to be guaranteed since they were backed by a highly reputable, legitimate, licensed and solvent bonding company: Provident Capital Indemnity, Ltd. ("PCI").

54. Unfortunately for investors, PCI was none of those things. Defendants failed to confirm whether PCI was a reputable, legitimate, licensed or solvent bonding company. Defendants also failed to perform any due diligence on PCI, including the fact that PCI is located offshore in Costa Rica and is not licensed to provide insurance in Texas or any other state in the United States.

55. In November 2006, *before Defendants offered and sold their life settlement securities to investors*, the Texas Department of Insurance issued an order requiring PCI to cease and desist engaging in the unauthorized business of insurance in connection with the issuance of bonds securing life settlement investments similar to those at issue in this action. In January 2008, the Texas Securities Board also issued a cease-and-desist order directed to PCI and a related life settlement investment similar to the one at issue in this action. In January 2011, PCI and two

of its principals were indicted by the United States Department of Justice for mail and wire fraud, effectively shutting down PCI.[4]

56. On January 19, 2011, the SEC filed an enforcement action against PCI, its president, and its outside auditor for making material misrepresentations regarding PCI's ability to satisfy its obligations in connection with numerous financial guaranty bonds sold to the public. The SEC sought emergency relief to halt the massive ongoing fraud by PCI, including a temporary injunction to enjoin PCI from violating federal securities laws, an order freezing all assets of PCI, and the appointment of a receiver for the benefit of investors.

57. The SEC subsequently obtained a temporary restraining order and the appointment of a receiver for PCI. The receiver was responsible for locating and recovering assets for the benefit of investors in life settlement investments bonded by PCI, including those sold by Defendants to Plaintiffs and other investors in this action. Defendants knew, or should have known, of PCI's checkered past at the time Defendants offered and sold their life settlement securities to investors.

58. Defendants' underestimation of the viators' life expectancies was a material misrepresentation of the value of the life settlements and caused investors to pay more than the life settlements were actually worth. Likewise, Defendants' sale of a worthless bond was a material misrepresentation that also caused investors to pay more than the life settlements were actually worth. Unbelievably, those

[4] PCI's former president was convicted of one count of conspiracy to commit mail and wire fraud, three counts of mail fraud, as well as three counts of money laundering, and was sentenced to 60 years in prison. Likewise, PCI's purported outside auditor pled guilty to one count of conspiring to commit mail and wire fraud, and was sentenced four and a half years in prison.

securities fraud violations are merely a prologue for this action. Defendants now have life settlement investors captive, and they continue to violate the securities laws. This action is not the first time Defendants have been scrutinized for their unlawful actions. They have been sanctioned by regulatory authorities in multiple states.[5]

59. Defendants have painted themselves as "victims" of the phony bonding company's fraud and the life expectancy fraud in the life settlements they sold to investors. At every step along the way, Defendants have refused to even acknowledge, much less take responsibility for, the fact that Defendants were solely responsible for packaging the phony bond and using a fraudulent life expectancy provider. The fact of the matter is that Defendants got paid upfront when the investors bought the life settlements. Defendants raked in between 15% to 20% of the money investors paid for these overvalued life settlements—life settlements that were overvalued solely because of Defendants' actions.

The Truth Emerges

60. By early 2018, Defendants' house of cards began to topple. In February 2018, Defendants sent a so-called "premium call" letter to investors. A premium call

[5] In October 2008, the Illinois Securities Department of the Secretary of State entered a temporary order of prohibition against Consolidated Wealth Holdings, Inc. ("CWH") and its officers and directors, including John Spalding, Laura Spalding and Scott Osborne, prohibiting them from offering securities or investment advice in the State of Illinois. In July 2014, the Department of Financial Securities for the State of Wisconsin issued an order prohibiting CWH and its agents, including John Spalding, Laura Spalding, Scott Osborne and Deanna Osborne, from offering or selling life settlement securities to residents of the State of Wisconsin. In December 2015, the Department of Finance for the State of Idaho entered an order against CWH, John Spalding, Scott Osborne and Deanna Osborne, finding that CWH violated Idaho securities laws by failing to disclose material information to investors regarding the risk of paying additional insurance premiums in the event a viator in an underlying policy lived past his or her life expectancy. As part of CWH's agreement with the Department of Finance, CWH agreed not to offer or sell its life settlement securities to residents of the State of Idaho. None of CWH's adverse regulatory history or regulatory sanctions was disclosed to investors at the time they invested in the Defendants' life settlement securities.

requires an investor to pay additional funds in direct proportion to his or her fractional ownership of a particular life settlement.

61. In the letter, Defendants acknowledged for the first time that their life settlement investments had encountered "significant problems." Defendants informed investors that the life expectancy reports which necessarily served as the foundation for pricing their life settlement investments had been deemed "invalid" as early as 2009. While Defendants' solicitation letter emphasized that the "Texas State Securities Board was informed of this problem in 2009," Defendants concealed this material information from current or prospective investors until nine years later.

62. For all those years, Defendants never told their investors that they were paying policy premiums on life settlements that were worth significantly less than the investors were told when they bought the life settlements. Defendants expressly acknowledged for the first time that the life expectancies were wrong, which was an implicit admission that the life settlements were (and are) worth far less than investors initially paid (and for which they were being asked to continue paying).

63. Although Defendants knew back in 2009 that their life expectancy estimates were fraudulent and unreliable, they did nothing to re-evaluate the life expectancies or provide updated information to investors so that investors could accurately assess the values of the life settlements. Without accurate information about the life expectancies, there is no way investors could make an informed investment decision about whether to keep paying premiums. After receiving Defendants' February 2018 letter, some investors decided they had had enough and

simply walked away from millions of dollars while others kept paying premiums because they did not want to lose everything. Of course, investors' forfeited interests were then turned over to Defendants.

64. Defendants, however, decided to roll the dice—fund the abandoned positions with the hope that one would yield a return before they ran out of money. Defendants were not solvent enough to finance all of the life insurance premiums, but they were able to finance some of them as long as other investors continued to make their capital contributions.

65. Defendants also sought to locate new third-party buyers who were willing to purchase life settlement interests Defendants could not maintain. Selling those life settlement investment interests to new third-parties also generated additional revenue for Defendants.

66. Defendants' February 2018 letter was designed to convince investors that Defendants were looking out for their interests so that investors would go along with Defendants' plan. In their letter, Defendants acknowledged for the first time that they had been paying the premiums on the underlying life insurance policies for the prior eight years without telling investors. Defendants stated that from approximately 2010 to 2018, they had paid or advanced $6,091,428.55 for premiums to various insurance companies, and that they had received a partial payout on a single policy.

67. After keeping investors in the dark for years about the true value of their investments and after actively trying to conceal any issues by covering the premium

shortfalls, Defendants disclosed that "approximately $63,500,000.00 on 19 [life insurance] policies" were at risk.

68. Plaintiffs' and other investors' life settlement agreements with Defendants did not require or even permit Defendants to finance insurance premiums on their own. And Defendants did not do so out of some overwhelming sense of altruism—it was just another shady move to perpetuate the fraud so Defendants could turn a profit.

69. Defendants' decision to conceal the misstated life expectancies and secretly pay the premiums has turned these life settlements from a very bad investment into an economic disaster for investors.

"We Are Out Of Money"

70. With more and more investors abandoning their life settlement interests to Defendants and the crush of the now-escalating premium payment obligations that accompany the abandoned positions, Defendants' panic reached a crescendo when they essentially issued a plea to investors: "The problem today is that we are out of money." Defendants never uttered a word of this to investors until it was too late. Instead, Defendants deceptively kept secret the grim financial outlook of their life settlement investments to prop up the life settlements they had sold and forestall any legal action against them.

71. Defendants kept this secret so as to not cause panic among the investors, have all future contributions dry up, and be forced to face the consequences of their illegal actions. Defendants were willing to make the payments necessary to keep the

life settlements going because they hoped for a big payday—one that would be financed by picking up policy interests from the defaulting investors and by having existing investors help to keep the underlying insurance policies in place long enough so that they could collect when a viator died.

72. Defendants never made any significant or substantial investments in these life settlements. Instead, they have just stood back and waited to collect the investment interests from defaulted investors after the investors have paid millions of dollars in premiums and sales commissions to Defendants.

73. Investors, like Mr. Pelle, asked Defendants for more investment information before agreeing to send them additional monies for the payment of quarterly insurance premiums. In 2018, Mr. Pelle already had invested substantial monies in a life settlement investment and paid insurance premiums in order to maintain his investment.

74. In late 2018, Defendants informed Mr. Pelle that his life settlement investment had a ***$0 fair market value*** because there was no market to sell his interests in the underlying insurance policy. As Defendants failed to provide Mr. Pelle with any updated medical information or life expectancy relating to the underlying insured, Mr. Pelle was forced to make the difficult decision to forgo paying additional premiums and had to forfeit his life settlement investment. As a result, Defendants acquired Mr. Pelle's defaulted interests and received an enormous windfall of his initial investment and premium payments.

75. The same scenario happened to many other investors who could not afford the costly quarterly insurance premiums that they never thought they would have to pay. As more investors defaulted, Defendants acquired substantial interests in insurance policies that were closer to maturity.

76. Had Defendants told investors the truth at any point along the way, it would have caused many more investors to stop paying the premiums. That would have completely destroyed the scheme Defendants contrived to profit for the second time on the backs of the investors. If everyone had stopped paying premiums at the same time, Defendants could not have continued kept this portfolio alive. That's why Defendants secretly advanced the money to pay premiums for years and why they quietly agreed to pay premiums on behalf of people who complained. They needed other investors to keep paying premiums so that Defendants could ultimately realize even more profit—profit that comes on the backs of regular investors.

77. Defendants' gamble has not paid off. There have not been enough payouts to offset the premium payment obligations on life insurance policies underlying the life settlements. Due to this mismanagement, Defendants are now seeking protection in bankruptcy.

78. After years of silence and a fake-it-until-you-make-it bravado, Defendants have now come forward with a plan that will result in investors getting significantly less than promised, and for those investors whose life settlements were taken from them by Defendants, they will get nothing.

79. Defendants collected money from investors to put them in this position, made a profit doing so and have kept all information about their misdeeds a secret so that investors would keep shelling out cash for the premium payments.

Defendants' Shell Game Continues As The Walls Close In

80. In 2018, after admitting that they had run out of money to finance insurance premiums, Defendants concocted a plan to force investors to abandon life settlements they have funded for years. Desperate to preserve the value of life settlements they have been secretly funding and in which they have most of their money invested, Defendants forced investors to switch from the life settlements they initially chose to different life settlements backed by different life insurance policies.

81. As a purported solution to the massive number of investors who have defaulted on their premium payment obligations, Defendants proposed to consolidate all investors who were paying premiums into a smaller number of life settlements backed by different life insurance policies rather than the life settlements they initially purchased. To be part of the consolidation, investors would have to abandon their initial life settlement investments (along with the corresponding insurance policies) and purchase a new life settlement backed by different life insurance policies.

82. Defendants knew that they faced civil liability for selling and profiting from the sale of the life settlements that were overvalued so they decided to start moving investors out of those investments and into different life insurance policies.

There was no reason for doing this, other than to distance Defendants and investors from those original investments.

83. Defendants embarked on this course because they desperately needed new investment money to keep the insurance policies underlying the life settlements in force.

84. Shortly after advising investors in February 2018 that they would be required to pay ongoing and escalating premiums to keep the insurance policies underlying life settlement investments in force, Defendants circulated another letter in April 2018 regarding their consolidation plan. In that letter, Defendants knowingly and purposely left investors in the dark regarding the rationale behind the consolidation plan. Again, rather fully disclosing the truth, Defendants failed to provide any information relating to: (a) the number or percentage of investors that did not submit their share of insurance premiums on a given policy, so that investors could fully understand the true risk of lapse; (b) whether Defendants were going to take on the responsibility for paying premiums on behalf of investors who could not pay their share so as to keep the policies in force; (c) what policies would be abandoned altogether; or (d) why certain policies were selected for consolidation while others were not. This information, among other facts, was critical so that investors could make appropriate and informed investment decisions.

85. Defendants falsely represented to investors that their proposed consolidation plan was necessary to "ensure that the required premium is paid to the maturity of the polici[es]" and would "improve the likelihood that your investment is

maintained until maturity." This was a false statement designed to coerce investors into sending their money to Defendants so they can recoup and even earn a profit on the over $6 million in premiums they had secretly advanced while collecting the abandoned policies.

86. Defendants methodically moved investors out of all of the original life settlements they had sold except for a few particular life settlements. This was no easy feat, and Defendants encountered resistance from investors along the way. Because Defendants needed as many investors as possible to continue paying premiums in order to keep the scheme alive, Defendants threatened investors in their aggressive attempts to collect money. Making sure that the investors continued to pay premiums was the only way Defendants were ever going to get back the money they put up to cover up the fraud.

87. The life settlements that Defendants have the greatest interests in are the life settlements that investors were being forced into as part of this shell game. This gave Defendants the greatest chance for financial gain with the least amount of financial obligation on their part.

88. When confronted with a call to switch to a different life settlement, investors had two investment options: (a) make the investment and pay their pro rata portion of the premiums in the new life settlement without a full picture of the information necessary to make the decision—especially an accurate, up-to-date life expectancy of the viator—or (b) forfeit their entire investments and be divested of any interests owned.

89. In April 2018, certain Plaintiffs and other investors made an investment decision and handed over premiums to cover their investment in the new life settlements—backed by an insurance policy and a viator for which Defendants either provided an out-of-date life expectancy projection or no life expectancy projection at all.

90. On April 27, 2018, just seven days after Defendants' deadline for investors to submit quarterly insurance premium payments, Defendants sent another letter to investors informing them of the serious danger of lapsing policies and attempted to get them to purchase an interest in new life insurance settlements.

91. As noted above, Defendants did not provide investors with the necessary information needed to evaluate a life settlement investment, such as the viators' medical history, overall health and life expectancy. Defendants simply chose new, alternative life settlements for their consolidation plan, and left investors with no choice but to participate.

92. Defendants' contract for new life settlements (suspiciously referred to as an "addendum") failed to provide investors with any current information relating to the viators associated with their initial investments, such as the viators' updated medical history, overall health or life expectancy.

93. Nor did Defendants provide sufficient information regarding the viators associated with investors' new life settlements. For instance, Ms. Vincent's contract for a new life settlement noted that life expectancy reports relating to the viator in the replacement policy "have not been provided to [*sic*] Company." If that is true, then

Defendants made a material misrepresentation in inducing investors to send their money: they informed investors that their so-called consolidation plan will "improve the likelihood that [their] investment [will be] maintained until maturity" without having a life expectancy estimate or knowing how long other investors in that policy would be willing to keep making additional investments to cover the premiums on the underlying policies. Defendants do not have a crystal ball, and if they do not have an accurate, up-to-date life expectancy projection for each viator (for investors' initial life settlements and for new life settlements), they cannot give any kind of opinion about the value of the investments. Consequently, Defendants' statement was demonstrably false on its face.

94. Defendants' consolidation plan forced investors to purchase new life settlements and forego all interests in the life settlements they had been invested in for years. Defendants could not afford to keep investors in those original positions because too many of their fellow investors have dropped out and Defendants did not have any money. As Defendants explained in their April 2018 letter, because a substantial number of investors had not paid their quarterly insurance premiums on shared policies, those investments were in danger of lapsing. Defendants warned, "a life insurance company will not accept a partial payment on a life insurance policy and if the entire payment isn't received the entire policy is lost."

95. Defendants knowingly and intentionally withheld material information from investors in an effort to deceptively coerce life settlement securities holders to participate in the consolidation plan. All of this was done to fraudulently deceive

investors into pouring additional monies into Defendants' coffers ostensibly to keep their life settlements—along with Defendants' interests in those life settlements—alive.

96. Defendants' consolidation plan benefitted them in several ways. Defendants knew that simply by the passage of time the life insurance policies underlying the life settlements were closer to paying out because the insureds were much closer to death. Defendants implemented the consolidation plan in order to capitalize for their own benefit.

97. A necessary byproduct of Defendants' new strategy was that they knowingly and intentionally let certain insurance policies lapse. While this did not affect investors who had abandoned their interests in that life settlement, it had a direct negative financial impact on the investors who had dutifully paid their premiums into the life settlement on the policies Defendants were writing off.

98. Defendants no longer had enough money to pay premiums, and that problem was exacerbated monthly as fewer and fewer investors were willing to entrust Defendants with their money. Defendants were not qualified to make the determination as to which life settlement securities should continue to be financed and which policies should be abandoned. By their own admission, they were recklessly choosing life settlements without sufficient information about the viators' life expectancy or the corresponding policy value.

99. After years of misrepresentations and outright lies, Defendants could not provide investors any assurance that the life settlements they were being

transferred into would be kept in place. Thus, even if investors agreed to abandon their initial interests and enter into an agreement to purchase an interest in a replacement policy, there was no system in place to guarantee that those policies will be properly financed and maintained.

100. Contrary to Defendants' representations, investors were in no better position if they agreed to participate in Defendants' so-called consolidation plan. That is because Defendants were unable to make up any shortfall that might be needed for future insurance premiums.

101. Defendants conveniently omitted important information when they coerced investors to abandon their initial investments and purchase new life settlement securities. They did so in an effort to keep their fraudulent scheme going and to dupe investors out of additional monies.

102. Defendants' egregious and unlawful conduct in connection with the offer and sale of life settlement securities is in violation of Section 10(b) of the Exchange Act of 1934 and Securities and Exchange Act Rule 10(b)-5 promulgated thereunder.

103. As the cost of financing quarterly insurance premiums continued to rise and more and more investors either could not or would not financially contribute to pay premiums, Defendants filed a Chapter 11 bankruptcy petition.

104. After generating millions of dollars of fees, commissions and acquiring defaulted interests from investors, Defendants have discussed, both in Court and in a series of invitation only conference calls, a bankruptcy plan that will only provide current investors with an estimated 20% to 30% return of their investments. Such an

injustice should not be permitted and Defendants should immediately be removed from managing whatever assets remain in investors' life settlement investment portfolio.

105. Defendants and their chosen Debtor-in-possession lender continue to make misleading statements to investors. In a series of "informational" webinars and conference calls, Defendants' agents have made the following comments to investors:

- "We've seen it all with these fractional companies and what happens under these class actions and Chapter 7s and it just never goes well for the client. It always ends up in some type of a liquidation event. After the lawyers eat up everything, most of these clients get nothing back. In my opinion that's what this law firm was looking to do, is trying to put CWM in a bad situation."

- "So it always ends up being a court-appointed trustee or receiver. They really don't understand the asset or have the knowledge or context to really do anything good for the asset or the portfolio that they are liquidating so they will hire some firm to do it. And usually it is a firm with very limited experience or it's a firm with a lot of experience but they'll charge 10% of that liquidation as their fee. A receiver gets another 40% and then all the clients end up hiring attorneys and it's a big mess. Groups of clients that probably don't have the money to hire good attorneys so they do it pro bono and that lawyer takes 40% of what they get. At the end of the day, 18 months later, you're gonna get, you know, 5% of your money back and the lawyers got the rest."

106. Defendants' spokesman used the foregoing misinformation as a means to get the investors to support a plan that has not been presented formally to the Court and for which no disclosure statement has been approved.

V.
CLASS ACTION ALLEGATIONS

107. Plaintiffs bring this action as a class action on behalf of themselves and classes of all similarly situated persons or entities that invested in Defendants' life settlement securities, pursuant to Rule 23(b)(2) and (b)(3) of the Federal Rules of Civil Procedure.

108. Plaintiffs seek certification of the following class (the "Class"), subject to refinement:

> All persons and entities who purchased or otherwise acquired life settlements issued or sold by Defendants or who paid monies to cover the insurance premiums on the underlying policies of life settlements issued or sold by Defendants, during the three years prior to the filing of the class arbitration demand (the "Class Period"), in the American Arbitration Association by Plaintiffs Vincent and O'Neal (Case No. 02-19-0002-5686). Excluded from the Class are Defendants and their parents, subsidiaries, affiliates, and all governmental entities. The Class also excludes all judicial officers presiding over this action and their immediate family members and staff.

109. Plaintiffs seek certification of the following sub-class (the "Sub-Class"), subject to refinement:

> All persons and entities who purchased or otherwise acquired life settlements issued or sold by Defendants or who paid monies to cover the insurance premiums on the underlying policies of life settlements issued or sold by Defendants, and were forced to switch from one life settlement to a new, different life settlement without adequate information regarding the life expectancy of either such life settlement during the three years prior to the filing of the class arbitration demand (the "Class Period"), in the American Arbitration Association by Plaintiffs Vincent and O'Neal (Cause No. 02-19-0002-5686). (the "Sub-Class Period"). Excluded from the Class are Defendants and their parents, subsidiaries, affiliates, and all governmental entities. The Class also excludes all judicial officers presiding over this action and their immediate family members and staff.

110. Certification of Plaintiffs' claims for class-wide treatment is appropriate because Plaintiffs can prove the elements of their claims on a class-wide basis using the same evidence as would be used to prove those elements in individual actions alleging the same claims.

111. **Numerosity – Federal Rule of Civil Procedure 23(a)(1).** Members of the Class are so numerous that their individual joinder herein is impracticable. Plaintiffs reasonably believe that Class members number in the hundreds to thousands. The precise number or identification of Class members are presently unknown to Plaintiffs, but may be ascertained from Defendants' books and records. Class members may be notified of the pendency of this action by mail, email, Internet postings, or publication.

112. **Commonality and Predominance – Federal Rule of Civil Procedure 23(a)(2) and 23(b)(3).** Common questions of law and fact exist as to all members of the Class, and such common issues predominate over any questions affecting only individual members of the Class. These common questions of law or fact include, but are not limited to, the following:

- Whether Defendants marketed, advertised, or promoted their life settlement investments in a deceptive and misleading manner;
- Whether Defendants participated in and pursued the common course of conduct complained of herein;
- Whether Defendants violated federal securities laws;
- The type and appropriate measure of damages sustained by Plaintiffs and the Class; and

- Whether the Class is entitled to injunctive or compensatory as a result of Defendants' wrongful conduct as alleged herein.

113. Defendants engaged in a common course of conduct giving rise to the legal rights sought to be enforced by Plaintiffs, on behalf of themselves and other Class members. Similar or identical statutory and common law violations, business practices, and injuries are involved. Individual questions, if any, pale in comparison, in both quality and quantity, to the numerous common questions that dominate this action.

114. **Typicality – Federal Rule of Civil Procedure 23(a)(3).** Plaintiffs' claims are typical of the claims of the other Class members because, among other things, all such claims arise out of the same wrongful course of conduct engaged in by Defendants in violation of the laws as complained of herein. Further, the damages of each member of the Class were directly caused by Defendants' wrongful conduct in violation of the laws as alleged herein.

115. **Adequacy of Representation – Federal Rule of Civil Procedure 23(a)(4).** Plaintiffs are adequate Class representatives because they are members of the Class and their interests do not conflict with the interests of the other members of the Class they seek to represent. Plaintiffs have also retained counsel competent and experienced in complex commercial and class action litigation, including securities class action lawsuits. Plaintiffs and their counsel intend to prosecute this action vigorously for the benefit of all Class members. Accordingly, the interests of Class members will be fairly and adequately protected by Plaintiffs and their counsel.

116. **Declaratory and Injunctive Relief – Federal Rule of Civil Procedure 23(b)(2).** Defendants have acted or refused to act on grounds generally applicable to Plaintiffs and the Class members, thereby making appropriate final injunctive relief and declaratory relief, as described below, with respect to Class members as a whole.

117. **Superiority – Federal Rule of Civil Procedure 23(b)(3).** A class action is superior to any other available means for the fair and efficient adjudication of this controversy, and no unusual difficulties are likely to be encountered in the management of this class action. The damages or other financial detriment suffered by Plaintiffs and Class members are relatively small compared to the burden and expense that would be required to individually litigate their claims against Defendants, so it would be impracticable for Class members to individually seek redress for Defendants' wrongful conduct. Even if members of the Class could afford individual litigation, the system could not. Individualized litigation creates a potential for inconsistent or contradictory judgments and increases the delay and expense to all parties and the system. By contrast, the class action device presents far fewer management difficulties, and provides the benefits of single adjudication, economy of scale, and comprehensive supervision by a single court.

SCIENTER

118. For the purposes of Plaintiffs' claims under the Exchange Act, Plaintiffs allege that Defendants made the above material misrepresentations and omissions either intentionally and/or with reckless disregard to accuracy for the purposes of: (a)

their own personal financial gain; (b) inflating market demand for the life settlements; and (c) securing the additional money they desperately needed to continue to pay policy premiums and maintain the illusion of solvency.

119. As set forth in detail above, Defendants were aware of the false claims, and each Defendant had actual knowledge that: (a) Defendants had been secretly paying insurance premiums on policies for many years; (b) Defendants concealed those payments from investors; (c) Defendants concealed the fact that they were acquiring the investors' defaulted interests in the life settlements; (d) Defendants concealed their true motives for consolidating investors into a smaller number of life settlement investments; (e) Defendants concealed information about the medical and health history of the viators in the policies underlying the life settlements both for investors' original policies and for replacement policies; and (f) Defendants misrepresented to investors that their consolidation plan would improve the likelihood that their life settlements would be maintained until maturity.

120. Defendants also knew that all statements about the viability of the life settlements were false and misleading at the time they were made, because Defendants were charged with maintaining the underlying life insurance policies. Investors have no idea who their co-investors in any life settlement might be, and Defendants are cramming them into life settlements where Defendants are the co-investors.

LOSS CAUSATION

121. During the Class Period, Defendants made false and misleading statements and engaged in a scheme to deceive the market, as well as a course of conduct that artificially inflated the value of their life settlements and operated as a fraud or deceit on the Class by materially misleading the investing public.

122. These false and/or materially misleading statements concealed Defendants' self-dealing and personal enrichment. As the risks surrounding the life settlements materialized when Defendants' prior misrepresentations and fraudulent conduct became apparent to the market during the Class Period, the value of the life settlements plummeted. As a result of Defendants' fraudulent conduct during the Class Period, Plaintiffs and other members of the Class suffered economic loss, i.e., damages under the federal securities laws.

123. Defendants failed to disclose to investors material information concerning the fact that their life settlements have been a fraudulent scheme since Defendants started secretly fronting money for premiums for defaulted investors. The decline in the value of the life settlements is attributable to Defendants' fraudulent and/or reckless conduct pursuant to the materialization-of-the-risk doctrine.

APPLICATION OF PRESUMPTION OF RELIANCE: FRAUD-CREATED-THE-MARKET-DOCTRINE

124. Reliance need not be proven in this action because the action involves falsities so egregious and pervasive that they go to the very existence of the life settlements. Positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the securities are so tainted by fraud as to be unmarketable. In

other words, it must be shown that but for the fraud, the life settlements would not have been marketable.

125. Defendants should not be continuing to market their life settlements because the value of the securities is objectively far less than Defendants claim. As detailed in this Class Action Complaint, absent Defendants' fraudulent conduct, the life settlements could not have been sold for any price. Where actors introduce an otherwise unmarketable security into the market by means of fraud, they have manipulated all purchasers of the security at issue. Accordingly, Plaintiffs are entitled to the presumption of reliance because all life settlements were offered and sold as a result of Defendants' brazen fraud.

NO SAFE HARBOR

126. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the material misrepresentations and omissions alleged in this Class Action Complaint.

127. The life settlements at issue here were securities, and, to the extent certain of the statements alleged to be misleading or inaccurate may be characterized as forward-looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

128. Defendants are also liable for any false or misleading "forward-looking statements" pleaded because, at the time each "forward-looking statement" was

made, the speaker knew the "forward-looking statement" was false or misleading and the "forward-looking statement" was authorized and/or approved by an executive officer of Defendants who knew that the "forward-looking statement" was false. Alternatively, none of the historic or present-tense statements made by Defendants were assumptions underlying, or relating to, any plan, projection, or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when they were made.

VI.
CLAIMS ALLEGED

COUNT I
VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT OF 1934 AND SEC RULE 10b-5 PROMULGATED THEREUNDER

129. Plaintiffs repeat and re-allege each and every allegation above as if set forth herein.

130. This Count is brought pursuant to Section 10(b) of the Exchange Act of 1934, 15 U.S.C. § 78j(b), and Securities and Exchange Act Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

131. The purpose of the Exchange Act of 1934 is to protect the general investing public. 15 U.S.C. § 78b.

132. Federal securities laws define the term "security" to include any "evidence of indebtedness," "investment contract," or "any interest or instrument commonly known as a 'security.'" 15 U.S.C. § 77b(a)(1).

133. The life settlements offered and sold by Defendants constitute securities under federal securities laws in that they are "investment contracts" and "evidence of indebtedness" as defined in 15 U.S.C. § 77(b)(a)(1).

134. During the Class Period, Defendants engaged in a plan, scheme, conspiracy and course of conduct that was intended to, and did: (a) deceive the investing public, including Plaintiffs and other Class members, as alleged herein; (b) artificially inflate the value of the life settlements; and (c) cause Plaintiffs and other members of the Class to make investments in life settlements that Defendants were to profit from. In furtherance of this unlawful scheme, plan, and course of conduct, Defendants took the actions set forth herein.

135. Defendants, by the use of means and instrumentalities of interstate commerce: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon Plaintiffs and the other members of the Class.

136. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of Defendants participated directly or indirectly in the preparation and/or publication of the promotional materials, letters and other statements and documents described above, including statements made directly to investors. Such communications and statements were materially false and misleading in that they

failed to disclose material adverse information and misrepresented the truth about Defendants' life settlements.

137. Defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiffs and the other members of the Class, or, in the alternative, Defendants acted with reckless disregard for the truth in that they failed or refused to ascertain and disclose such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to Defendants. Said acts and omissions were committed willfully or with reckless disregard for the truth. In addition, each of Defendants knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.

138. Defendants' fraudulent consolidation plan created the market whereby investors were forced to abandon their original life insurance policies in which they had invested for years, consolidate their investments with other investors who had been paying premiums, and purchase an interest in different, pre-determined life settlement securities selected by Defendants.

139. But for Defendants' fraudulent scheme, the new life settlement securities sold to investors would never have been issued or marketed. Investors had no choice but to rely on the integrity of the life settlement securities market created by Defendants. That is because investors could only purchase their new life settlement interests directly from Defendants, and investors were told that they could no longer hold onto their initial investments.

140. At the time of forcing investors to participate in their consolidation plan, Defendants knew that their business enterprise was a sham and could not survive. Defendants had direct knowledge that the life expectancies associated with their life settlement securities were invalid, that there were no guaranty bonds in place to protect against the risk that a viator may live past his or her life expectancy, and that investors could not afford the escalating costs of insurance premiums. Nevertheless, despite having knowledge that the material and critical components of their life settlement securities were illusory, Defendants marketed and sold new life settlement securities through their consolidation plan.

141. Accordingly, Plaintiffs are entitled to a presumption of reliance because all of Defendants' life settlement securities were offered and sold—i.e., forced upon investors—as a result of Defendants' fraudulent conduct.

142. Plaintiffs and the Class did not know the adverse facts about Defendants' life settlements because Defendants misrepresented and concealed the truth. Plaintiffs and the other members of the Class purchased Defendants' life settlements and were damaged thereby. Had Plaintiffs and the other members of the Class known the truth, they would not have purchased Defendants' life settlements. At the time of Plaintiffs' and the Class's purchases, Defendants' life settlements were worth far less than Defendants represented and may end up being completely worthless if Defendants are unable to hoodwink more people into making investments.

143. By reason of the conduct alleged herein, Defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder.

144. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their respective purchases, acquisitions and sales of Defendants' securities during the Class Period, upon the disclosure that Defendants had been disseminating false materials concerning essentially every aspect of Defendants' operations to the investing public.

VIII.
PRAYER FOR RELIEF

WHEREFORE, Plaintiffs, individually and on behalf of the other members of the Class proposed in this Class Action Complaint, respectfully request that the Court enter an award and relief as follows:

a) Declaring this action is a proper class action, certifying the Class as requested herein, designating Plaintiffs as Class Representatives, and appointing the undersigned counsel as Class Counsel for the Class;

b) Declaring that Defendants are liable to Plaintiffs and the Class pursuant to the federal Exchange Act;

c) Enjoining Defendants from engaging in the unlawful conduct set forth herein;

d) Requiring an accounting of the remaining funds and assets raised from Plaintiffs and other members of the Class in connection with Defendants' offer and sale of life settlement securities;

e) Awarding Plaintiffs and the Class compensatory damages for the injuries alleged herein;

f) Awarding Plaintiffs the costs of this action, including a reasonable allowance for attorneys' fees and litigation costs and expenses;

g) Awarding statutory pre- and post-judgment interest; and

h) Granting such other and further relief as is necessary and appropriate.

Dated: May 2, 2022

Respectfully submitted,

By: *<u>/s/ Keith L. Langston</u>*

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