

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

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JAKE VALE, on behalf of himself	:	
and all others similarly situated,	:	
	:	Civil Action No. 9-cv-3807
Plaintiff,	:	"ECF Case"
v.	:	
	:	
EDWIN J. MCGUINN, JR., VISHAL	:	CLASS ACTION COMPLAINT
GARG, YARIV KATZ and RAZA KHAN,	:	
	:	
Defendants.	:	
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Plaintiff has alleged the following based upon the investigation by Plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by MRU Holdings, Inc. ("MRU" or the "Company"), as well as press releases and other public statements issued by the Company, and media reports about the Company. Plaintiff believes that additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

**NATURE OF THE ACTION**

1. This is a federal class action on behalf of all those who purchased or otherwise acquired the securities of MRU between July 9, 2007, and September 19, 2008, inclusive (the "Class Period").

2. During the Class Period, Defendants issued statements regarding the Company's business and financial results that contained untrue statements of material fact. Defendants knew or were reckless in not knowing that the market for Auction Rate Securities ("ARSs") was illiquid and existed at the whim of the broker-dealers, and that without the favorable securitization terms generated by this market the Company's

business model was untenable. Statements issued by Defendants did not disclose the nature of this market or the extent of the Company's reliance on it. As a result of these material omissions and untrue statements of material fact, MRU securities traded at artificially inflated prices during the Class Period. Beginning on July 7, 2008, the truth was revealed regarding MRU's business, causing the price of MRU's securities to drop precipitously.

### **JURISDICTION AND VENUE**

3. The claims asserted herein arise under and pursuant to §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78j(b) and 78t(a)], and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5]. This Court has jurisdiction over the subject matter of this action pursuant to § 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. §§ 1331 and 1337.

4. Venue is proper in this Judicial District pursuant to § 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. § 1391(b).

5. Many of the acts and transactions alleged herein, including the dissemination of materially false and misleading information, occurred in substantial part in this Judicial District.

6. In connection with the acts, conduct, and other wrongs alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications, and the facilities of a national securities exchange.

### **PARTIES**

7. Plaintiff, Jake Vale, as set forth in the accompanying certification,

incorporated by reference herein, purchased shares of MRU common stock during the Class Period.

8. Defendant Edwin J. McGuinn, Jr. was Chief Executive Officer (“CEO”) of the Company and a member of the Company’s Board of Directors (the “Board”) at times relevant to this complaint.

9. Defendant Vishal Garg was Chief Financial Officer (“CFO”) of the Company and a member of the Board at times relevant to this complaint.

10. Defendant Yariv Katz was Vice President and General Counsel of the Company at times relevant to this complaint.

11. Defendant Raza Khan was President of the Company and a member of the Board at times relevant to this complaint.

12. McGuinn, Garg, Katz, and Khan are referred to herein as the “Defendants.”

13. MRU, a Delaware corporation with 95 employees during the Class Period, has principal executive offices at 1114 Avenue of the Americas, New York, New York 10036. The Company was originally incorporated on March 2, 2000 as Dr. Protein.com, Inc., and became MRU Holding, Inc. on July 6, 2004, through a reverse merger by which the Company issued 6,863,433 shares of common stock in exchange for 100% of the issued and outstanding shares of Iempower, Inc., a Delaware corporation doing business in New York. MRU held itself out as a specialty finance company that facilitates and provides students with funds for higher education as an originator and holder of federal and private student loans. On February 9, 2008, in the Southern District of New York, MRU filed a voluntary petition for bankruptcy protection under Chapter 7 of the United

States Bankruptcy Code. For this reason, MRU is not named as a defendant in this action.

### **CLASS ACTION ALLEGATIONS**

14. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all those who purchased or otherwise acquired the securities of MRU between July 9, 2007, and September 19, 2008, inclusive, and who were damaged thereby (the “Class”), seeking to pursue remedies under the Exchange Act. Excluded from the Class are Defendants, the officers and directors of MRU at all relevant times, members of the immediate families of any defendant and their legal representatives, heirs, successors, or assigns, and any entity in which any defendant has or had a controlling interest.

15. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agents and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

16. Plaintiff’s claims are typical of the claims of the other members of the Class as all members of the Class are similarly affected by a substantial portion of the illegal conduct complained of herein.

17. Plaintiff will fairly and adequately protect the interests of the members of the Class. Plaintiff has retained counsel competent and experienced in class and

securities litigation and intends to prosecute this action vigorously. Plaintiff is a member of the Class and does not have interests antagonistic to, or in conflict with, the other members of the Class.

18. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a) whether the federal securities laws were violated by Defendants' acts as alleged herein;
- b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations, and financial statements and condition of MRU;
- c) whether the statements at issue were made with scienter; and
- d) whether Defendants' acts caused Plaintiff's damages, and the proper measure of such damages.

19. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because, among other things, joinder of all members is impracticable for the Class. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## **BACKGROUND**

20. MRU was an originator and holder of federal and private student loans.

21. A prospective college student has three sources of funds to cover tuition. Low income students can apply for federal Pell grants, which do not have to be repaid. Students can also apply for government-subsidized student loans, originated by firms such as Sallie Mae at below-market interest rates, with the loans guaranteed by the government. However, these loans are capped at \$3,500 to \$10,500 annually for undergraduate students, which means students must often obtain additional private loans from banks to cover the full cost of tuition, currently running at an average annual cost of \$12,000 for a public university, and \$20,000 for a private one. The third source of funds are private student loans such as those originated by MRU.

22. Lenders like MRU originate loans but then try to clear them from their books by packaging pools of the loans into securities and selling these securities to investors. This frees up capital to make new loans, and the lenders hope to earn more money by the fees they receive on the securitizations than they could if they held the loans on their books.

23. The Company derives revenue from interest accrued on its student loan portfolios, origination fee revenue on its student loan portfolios, and residual cash flows from the sale or securitization of its student loan portfolios.

### **ASSET SECURITIZATION**

24. As reported in the Company's Annual and Quarterly Reports, "Securitization refers to the technique of pooling loans and selling them to a special purpose, bankruptcy remote entity, typically a trust, which issues securities to investors backed by those loans. The debt instruments that the trust issues to finance the purchase of these student loans are obligations of the trust, and not obligations of the Company."

25. The trust, which is controlled by the Company, buys the loans from the Company and the Company is allowed to record an immediate gain from the sale of the loans to the trust.

26. The interest rate that the trust receives on the debt instruments it issues to investors impacts the Company's results in two ways.

27. First, the greater the difference between the interest rates on the underlying loans and the interest rate paid by the trust on the issued debt instruments (*i.e.*, the greater the "spread"), the greater the premium that the Company can charge the trust for the pooled student loans that it sells to the trust. This premium is recorded as immediate income by the Company.

28. Second, the Company maintains an interest in the income that the trust receives on the pooled student loans, referred to as a "Residual Interest." The greater the spread between the interest rates on the underlying loans and the interest rate paid by the trust of the issued debt securities, the more valuable the Residual Interest will be. Although this Residual Interest is income to be received in the future, it is immediately recorded as an asset on the Company's balance sheet.

29. The trust created for the Company's first securitization, which is discussed at length below, issued ARSs as its debt instrument.

### **AUCTION RATE SECURITIES**

30. ARSs are municipal debt securities, corporate debt securities, or preferred stock that pay interest or dividends at rates set at auctions held every 7, 14, 28, or 35 days.

31. ARSs have long-term, or even no, maturity dates. Corporate debt ARSs

frequently mature 30 years after they are issued. ARSs issued by MRU in June 2007 mature in July 2043.

32. Until February 13, 2008, ARSs were auctioned at par. As a consequence, the only return on investment for an investor in auction rate securities was the interest rate or dividend yield set through the auctions.

33. An issuer of ARSs, like MRU, selects one or more broker-dealers to underwrite the offerings and to manage the auction process. Investors can only submit orders through the selected broker-dealer. ARSs issued by MRU were underwritten by Merrill Lynch & Co. (“Merrill Lynch”).

34. The interest rate or dividend yield is set through a Dutch auction. In a Dutch auction, all bids are submitted simultaneously. Each bid is ranked from lowest to highest minimum bid rate. The lowest bid rate at which all the shares can be sold at par establishes the interest rate, otherwise known as the “clearing rate.” This rate is paid on the entire issue for the upcoming period. Investors who bid a minimum rate above the clearing rate receive no securities, while those whose minimum bid rates were at or below the clearing rate receive securities that pay the clearing rate for the next period.

35. There are four possible orders for ARSs: 1) “hold” orders by current holders of the securities, by which the holder will keep the shares regardless of the new interest rate; 2) “hold-at-rate” orders by current holders of the securities, by which the holder will keep the securities if the clearing rate is at or above the specified rate; 3) “sell” orders by current holders of the securities, by which the holder will sell the securities regardless of the clearing rate, and 4) “buy” orders by prospective investors, by which the investor will buy securities if the clearing rate is at or above the specified rate.

36. An auction fails when there are not enough orders to buy all of the shares being sold at the auction. In a failed auction, the issuer pays a rate set by a pre-determined formula described in the registration statement or prospectus (the “Default Rate”), and all of the current holders continue to hold the securities.

37. As ARSs were originally conceived, the default rate was comparable to long-term bond rates, and thus higher than the rate set by periodic auction. This higher interest rate served two purposes. First, it compensated holders of the securities for the lack of liquidity and long-term maturity of the security. Just as importantly, it created a significant incentive for the issuer of the security to redeem the securities or otherwise provide liquidity for the holders.

38. In recent years, however, some issuers have set the default rate for their auction rate securities at rates only marginally higher, or even *lower* than the auction rate. As a result, if an auction for one of these securities fails, holders are left with an entirely illiquid long-term bond (or preferred stock with a long-term maturity date) that pays rates comparable to, or even *less than*, money-market rates.

39. Despite the long-term maturities of ARSs, MRU and other issuers of ARSs were able, prior to February 2008, to pay short-term money-market interest rates on these investments as a result of the marketing efforts of broker-dealers, including Merrill Lynch, who marketed these securities as “same as cash.”

40. The illusion of short-term liquidity was maintained by the auction process, which prior to February 2008 gave holders of ARSs the ability to sell their securities at an auction held every 7, 14, 28, or 35 days.

41. This liquidity was illusory, however, because there were often not enough

buy orders to purchase all of the ARSs at auction, which if left unmanipulated would have resulted in widespread auction failures and illiquidity. This result was only kept at bay, prior to February 2008, by the manipulative practices of broker-dealers.

42. In order to conceal the inherent illiquidity of the auction market, broker-dealers, including Merrill Lynch, made purchases on their own account to prevent the auctions from failing. In short, there was no “auction” for auction rate securities. Consequently, the “market” for ARSs existed at the whim of the broker-dealers.

43. The securitization of the Company’s student loan portfolio was a core component of MRU’s business. Securitizations were so important to the Company’s bottom line that for the fiscal year ended June 30, 2007, the Company’s income from securitizations was \$16,205,324, or 58% of the Company’s total income, and more than twice the \$7,909,515 that the Company earned from interest on student loans.

44. Because the securitizations were a core component of the Company’s business, Defendants either knew or were reckless in not knowing that the market for ARSs existed at the whim of the broker-dealers.

### **THE COLLAPSE OF THE ARS MARKET**

45. On February 13, 2008, all of the major broker-dealers stopped purchasing ARSs on their own account, which practice had been concealing the illiquidity of, and supporting the sham liquidity of, the ARS market. Without the support of the major broker-dealers, on February 13, 2008, 87% of all ARS auctions failed. While the auctions for MRU ARSs did not fail in February 2008, some did fail after March 31, 2008.

## FALSE AND MISLEADING STATEMENTS

46. On July 9, 2007, Defendants caused the Company to issue a press release via PRNewswire entitled “MRU Holdings, Inc. Announces Economics on \$200 Million Securitization of Private Student Loan Portfolio”:

NEW YORK, July 9 /PRNewswire-FirstCall/ -- MRU Holdings Inc. (Nasdaq: UNCL), a specialty finance company that provides federal and private student loans through its consumer brand MyRichUncle(TM), today announced the economic benefits to the Company associated with its first securitization of private student loans, which closed on June 28, 2007.

The securitization involved the purchase of direct-to-consumer private student loans by MRU Student Loan Trust 2007-A (the Trust) and the related issuance of student loan asset-backed notes by the Trust to qualified institutional buyers.

The Trust issued approximately \$200 million in principal amount of asset-backed securities on June 28, 2007. Of the notes issued, \$82.75 million are designated Class A-1 Notes, \$82.75 million are Class A-2 notes, \$21.5 million are Class B Notes, and \$13 million are Class C Notes. The Class A-1 Notes and Class A-2 Notes are rated AAA and Aaa by S&P and Moody's respectively, and the Class B Notes are rated A and A2 by S&P and Moody's, respectively, and the Class C Notes are rated Ba2 by Moody's. The Trust proceeds raised were used to fund the purchase of \$137.8 million of private student loans from the Company's existing loan portfolio in the quarter ended June 30, 2007, and will also be used to make additional purchases of loans over the next quarter.

The \$137.8 million of loans initially sold to the Trust generated an estimated economic value of \$19.0 million, comprised of an estimated gain on sale of \$16.3 million and an estimated increase to equity of \$2.7 million, which will be recognized in the Company's 2007 fourth fiscal quarter ending June 30, 2007. Included within the calculation of the economic value is the reversal of \$2.4 million of reserves for bad debt. In addition to the revenues and adjustments above, the Company has recognized revenue of approximately \$1.3 million from owning the loan portfolio prior to securitization. The overall yield of approximately 13% represents total economics to the Company as a percentage of the \$137.8 million loan balance sold. In addition, through the release of capital and sale of the loans at a premium to the securitization trust, the securitization transaction generated \$8.0 million in net cash proceeds after transaction expenses for the Company.

“MRU’s first securitization is an important milestone for the Company. It confirms the Company’s business model and provides a strong platform for the Company’s continuing growth in originating student loans. The Company has generated excellent economics on its first deal considering that it was subject to a turbulent market environment and had to bear many first time issuer costs which we expect to reduce in future transactions. Offsetting these factors was the excellent reception by the market of the Company’s business model, and the strength of the Company’s underlying portfolio and its highly scalable operating and underwriting model,” noted Vishal Garg, Co-Founder and CFO.

47. The July 9, 2007 press release failed to disclose the true nature of the securitization, namely that the issued securities were ARSs, that the liquidity of the ARS market existed at the whim of the broker-dealers, and that the broker-dealers manipulated the market to suit their own purposes. This information was material to investors because the Company’s ability to obtain favorable terms in future securitizations was crucial to the Company’s business model. Consequently, the July 9, 2007, press release was false and misleading when made because it did not disclose:

- a) that the securities issued in the securitization were ARSs;
- b) that the ARS market was illiquid and existed at the whim of the broker-dealers;
- c) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;
- d) that the spread created by this lower interest rate allowed the Company to realize the reported \$16.3 million gain;
- e) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the

Company; and

f) that without the favorable terms available in the ARS market as a result of manipulation by broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

48. On September 28, 2007, the Company filed with the SEC its Annual Report on Form 10-KSB for the fiscal year ended June 30, 2007, signed by McGuinn, Garg, and Kahn. The 10-KSB stated:

### **RISK FACTORS**

\* \* \*

The Company completed its first securitization in June 2007, in which it recognized a gain of \$16.2 million from the sale of \$137.8 million of private student loans to a trust established by the Company. It is our intent to continue to securitize our student loans from time to time as sufficient volumes of loans are originated to efficiently execute such transactions.

\* \* \*

### **Item 6. Management's Discussion and Analysis or Plan of Operation.**

#### **OVERVIEW**

In June 2007, the Company completed its first securitization of private student loans. Securitization refers to the technique of pooling loans and selling them to a special purpose, bankruptcy remote entity, typically a trust, which issues securities to investors backed by those loans. The debt instruments that the trust issues to finance the purchase of these student loans are obligations of the trust, and not obligations of the Company. On a going forward basis, the Company plans to either sell or securitize student loan portfolios, which will generate a gain on sale for the Company for this asset. The timing of such an event is dependent on several factors, including but not limited to the following: the size of the Company's student loan portfolios, the financial ability of the Company to hold this asset, the market at the time of the transaction for this asset class, and the ability of the Company to support the requirements for a sale or securitization transaction. The Company believes that it is likely to have one or two securitization transactions before the conclusion of its fiscal year on June 30, 2008.

\* \* \*

## **OTHER INCOME**

In fiscal 2007, the Company's net other income was \$16,859,741 compared to \$435,568 in fiscal 2006. The increase was driven by securitization income of \$16,205,324 generated by the Company's first securitization of its private student loan portfolio in June 2007 (see footnote 15 for more information on the securitization).

\* \* \*

On June 28, 2007, the Company closed its first securitization of its private student loan assets. The transaction was accounted for as a sale of the \$138 million of private student loans securitized. In connection with the sale, the Company booked a gain of \$16.2 million based upon the excess of the proceeds and value of the Residual Interest received over the carrying value of the assets sold. The Company values the retained Residual Interest at \$11.2 million, all of which are referred to as the Company's Accounts Receivable from Securitization. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, other fees, and the principal and interest on the bonds backed by the student loans. The residual cash flows are expected to be received by the Company over approximately 28 years. The investors in the securitization trusts have no recourse to the Company's other assets should there be a failure of the student loans to pay when due.

\* \* \*

### *Auction Rate Market*

In August 2007, the rapid deterioration of subprime mortgages and collateralized debt obligations lead to disruptions in the money markets which in turn impacted the market for auction rate student loan notes. Since that time, similar to the experience of other issuers of student loan auction rate notes, the interest rate on the Company's student loan auction rate notes has widened to approximately 0.80% over Libor. As discussed above in "Note 16 - Securitization - Residual Interest in Securitized Receivables", an increase in the spread between Libor and Auction Rate Indices would reduce the estimated fair value of the Company's Residual Interests.

On a quarterly basis, the Company is required to re-evaluate the fair value of its Retained Interest in its securitization. As such, the Company will take the outlook for the interest rates for auction rate securities into account when next evaluating the fair value of its Retained Interest. Based upon conversations with market makers in auction rate securities, the

Company believes that the higher interest rates in the student loan auction rate market are a temporary phenomenon. To date the increased rates on the Company's auction rate notes have lead to interest expense in excess of projections of approximately \$150,000.

49. The Company's financial statements, as contained in the September 28, 2007 10-K, reported as follows:

<b>ASSETS</b>			<b>2007</b>	<b>2006 (Restated)</b>
<b>ASSETS:</b>				
	*	*	*	
<i>Accounts receivable from securitizations</i>			<i>11,191,957</i>	<i>0</i>
	*	*	*	
<b>TOTAL ASSETS</b>			<b>\$54,192,214</b>	<b>\$65,943,175</b>
	*	*	*	
<b>OTHER INCOME</b>				
<i>Securitization Income</i>			<i>16,205,324</i>	<i>0</i>

50. Although Defendants finally disclosed that the securitization was accomplished by issuing ARSs, Defendants again failed to disclose the true nature of the ARS market, or the fact that the favorable terms received in the June 2007 securitization were a result of manipulation of the ARS market by broker-dealers, including Merrill Lynch. Consequently, the September 28, 2007 Form 10-KSB was false and misleading when made because it did not disclose:

- a) that the ARS market was illiquid and existed at the whim of the broker-dealers;
- b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust

than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company;

e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable; and

f) that the value of the Residual Interest was overstated because once the true nature of the ARS market became known, the 2007 Trust would be forced to pay higher interest rates on the ARSs it issued.

51. On October 1, 2007, Defendants caused the Company to issue a press release *via* PRNewswire announcing its financial results for the fiscal year ended June 30, 2007. Among other things, Defendants stated:

NEW YORK, Oct. 1 /PRNewswire-FirstCall/ -- MRU Holdings Inc. (Nasdaq: UNCL), a specialty finance company that provides federal and private student loans through its consumer brand MyRichUncle(TM) and through private label partners, today announced results for its fourth quarter and fiscal year ended June 30, 2007.

\* \* \*

During the fourth quarter of fiscal 2007, the Company completed its first securitization of private student loans resulting in securitization income of \$16.2 million, which is included in Other Income on the company's income statement.

\* \* \*

Other Income for fiscal year 2007 includes securitization income of \$16.2 million.

\* \* \*

#### Originations Outlook

As previously reported, the Company expects to originate approximately \$365 million in private and federal student loans in the fiscal year ending June 30, 2008 and approximately \$630 million for the fiscal year ending June 30, 2009.

52. Defendants made no mention of the ARS market in this press release, despite the fact that the Company's ability to originate loans was wholly dependent on the favorable terms afforded by the manipulation of that market by the broker-dealers. Consequently, the October 1, 2007 press release was false and misleading when made because it did not disclose:

a) that the ARS market was illiquid and existed at the whim of the broker-dealers;

b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company; and

e) that without the favorable terms available in the ARS market as a

result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

53. On November 14, 2007, the Company filed with the SEC its Quarterly Report on Form 10-Q for the period ending September 30, 2007, signed by McGuinn and Garg. The 10-Q stated:

**Securitization**

On June 28, 2007, the Company closed its first securitization of its private student loan assets. The transaction was accounted for as a sale of the \$137.8 million of private student loans securitized. In connection with the sale, the Company booked a gain of \$16.2 million based upon the excess of the proceeds and value of the Residual Interest received over the carrying value of the assets sold. On September 25, 2007, the Company sold an additional \$32.4 million of private loans to the trust and booked a gain of \$4.1 million. The Company values the retained Residual Interest at \$13.9 million, all of which are referred to as the Company's accounts receivable from the Securitization.

\* \* \*

The Company completed its first securitization in June 2007, in which it recognized a gain of \$16.2 million from the sale of \$137.8 million of private student loans to a trust established by the Company; in September 2007, the Company sold \$32.4 million of additional private student loans the trust and recorded a gain of \$4.1 million. It is our intent to continue to securitize our student loans from time to time as sufficient volumes of loans are originated to efficiently execute such transactions.

54. The Company's financial statement, as contained in the November 14, 2007 10-Q, reported as follows:

**ASSETS**

**September 30, 2007    June 30, 2007**

**ASSETS:**

\* \* \*

<i>Accounts receivable from securitizations</i>	<i>13,937,315</i>	<i>11,191,957</i>
-------------------------------------------------	-------------------	-------------------

	*	*	*	
<b>TOTAL ASSETS</b>			<b>109,090,955</b>	<b>54,192,214</b>
	*	*	*	
<b>OTHER INCOME</b>				
<i>Securitization Income</i>			<i>4,065,582</i>	<i>0</i>

55. Defendants again failed to disclose the true nature of the ARS market, or the fact that the favorable terms received in the June 2007 securitization were a result of manipulation of the ARS market by broker-dealers, including Merrill Lynch. Consequently, the November 14, 2007 Form 10-Q was false and misleading when made because it failed to disclose:

- a) that the ARS market was illiquid and existed at the whim of the broker-dealers;
- b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;
- c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;
- d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company;
- e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model

untenable; and

f) that the value of the Residual Interest was overstated because once the true nature of the ARS market became known, the 2007 Trust would be forced to pay higher interest rates on the ARSs it issued.

56. Also on November 14, 2007, Defendants caused the Company to issue a press release *via* PRNewswire regarding financial results for the first quarter of 2008.

Among other things, Defendants stated:

NEW YORK, Nov 14, 2007 /PRNewswire-FirstCall via COMTEX News Network/ -- MRU Holdings, Inc. (Nasdaq: UNCL), a specialty finance company that provides federal and private student loans through its consumer brand MyRichUncle(TM) and its relationships with private label partners, today announced results for its fiscal 2008 first quarter ended September 30, 2007.

\* \* \*

Other income for the fiscal 2008 first quarter includes securitization income of \$4.1 million associated with the sale of the second pool of loans to the securitization Trust which was established at the time of Company's first securitization in June 2007.

\* \* \*

#### Recent Accomplishments

\* \* \*

-- Completed its first securitization of \$200 million in private student loans in June 2007, with a portion of the loans being sold to the securitization Trust at a premium in the fiscal 2007 fourth quarter, generating a gain of \$16.2 million. During the fiscal 2008 first quarter the second pool of loans was sold to the securitization Trust generating a gain of \$4.1 million.

\* \* \*

#### Loan Origination Outlook

As previously reported, MRU expects to originate approximately \$365 million in private and federal student loans in the fiscal year ending June 30, 2008 and approximately \$630 million for the fiscal year ending June

30, 2009.

57. Again Defendants made no mention of the ARS market in this press release, despite the fact that the Company's ability to originate loans was wholly dependent on the favorable terms afforded by the manipulation of that market by the broker-dealers. Consequently, the November 14, 2007 press release was false and misleading when made because it failed to disclose:

a) that the ARS market was illiquid and existed at the whim of the broker-dealers;

b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

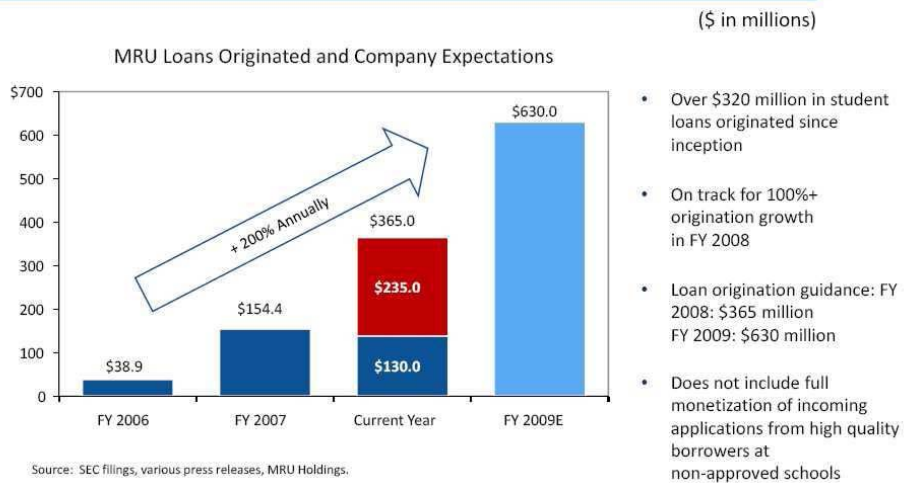
d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company;

e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable; and

f) that the value of the Residual Interest was overstated because once the true nature of the ARS market became known, the 2007 Trust would be forced to pay higher interest rates on the ARSs it issued.

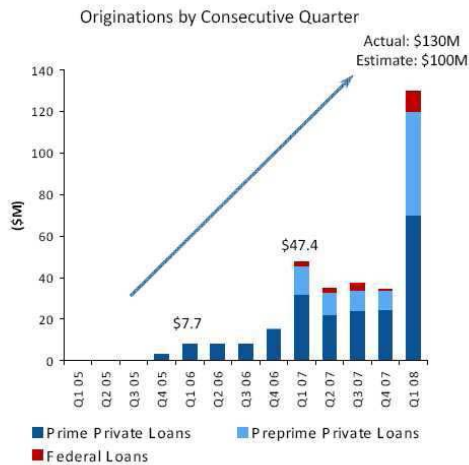
58. On February 4, 2008, the Company furnished a copy of its January 2008 investor presentation to the SEC via a Form 8-K, signed by Katz, which contained the following excerpts:

## Fastest Growing Company in Private Student Loan Sector<sup>13</sup>



## Loan Origination Volume Growth Continues

(\$ in millions)

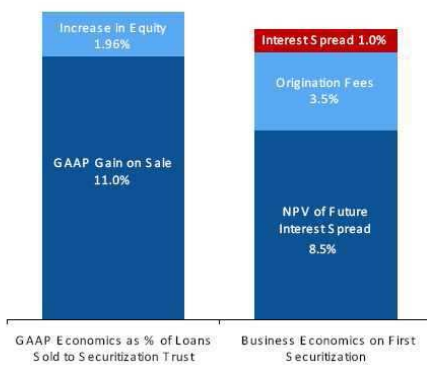


- Seasonal business with Q1 the busiest quarter
- Q1 08 to be largest volume quarter yet.
- Estimated \$100 million. **Actual \$130 million**
- Q1 08 will set baseline for next three months of origination levels

Source: SEC filings, various press releases.



## Economies of Scale Benefits Future Securitization Revenue



Long-Term Economic Model (as % of Private Loans Originated)

- 13% of loans originated recognized as revenue in first securitization in June 2007
- Securitization revenue expected to increase to 15% from 13% due to more efficient risk-based pricing on assets and improvements in servicing fees



59. On February 7, 2008, the Company furnished a copy of its February 7, 2008 investor presentation to the SEC *via* a Form 8-K, signed by Katz, which contained the same pages excerpted above.

60. The investor presentations discussed in paragraphs 58 and 59 above were false and misleading because they failed to disclose:

a) that the ARS market was illiquid and existed at the whim of the broker-dealers;

b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company; and

e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

61. On February 13, 2008, the ARS market collapsed, with 87% of all ARS auctions failing.

62. On February 14, 2008, the Company filed its Quarterly Report on Form

10-Q for the quarter ended December 31, 2007, signed by McGuinn and Garg. The 10-Q stated:

On June 28, 2007, the Company closed its first securitization of its private student loan assets. The transaction was accounted for as a sale of the \$137.8 million of private student loans securitized. In connection with the sale, the Company booked a gain of \$16.2 million based upon the excess of the proceeds and value of the Residual Interest received over the carrying value of the assets sold. On September 25, 2007, the Company sold an additional \$32.4 million of private loans to the trust and booked a gain of \$4.1 million. On November 29, 2007, the Company sold an additional \$0.38 million of private loans to the trust. The Company values the retained Residual Interest at \$11.3 million, all of which are referred to as the Company's accounts receivable from the Securitization.

\* \* \*

The senior tranches of the Company's securitization are auction rate notes. The interest rate on auction rate notes is reset through an auction process periodically (currently every 28-days). Based upon market conditions at the time of each auction, the spread to LIBOR of the interest rate required by investors could be more or less than the initial spread to LIBOR at which the transaction was priced. Since November 2007, the interest rate on the Company's student loan auction rate notes has widened to approximately 1.65% over LIBOR. In booking the gain on the loans sold in September 2007 and November 2007 and in valuing the Residual Interest, the Company has assumed that these higher spreads will continue through June 2008 and then return over the next twelve months to approximately 0.275% over LIBOR for the remaining life of the transaction. The spread indicated above is the weighted average over the life of the transaction.

\* \* \*

#### *Increase in Student Loan Auction Rate Bond Auction Failures*

On February 7, 2008, several auction-rate broker-dealers discontinued supporting the auctions for student loan auction rate notes, leading the auctions to fail in the absence of a clearing bid. The auction for the subordinate notes of the Company's securitization that was held on the same day was, however, successfully completed. This recent deterioration in the auction rate market casts doubt upon the potential for market normalization in the near term.

As discussed in Note 16 - Securitization, the Company adjusted its auction rate assumptions used to value its Residual Interest in its securitization,

resulting in a \$3.0 million adjustment to other comprehensive income. Primarily, we extended the period through which the auction rate securities would price at the maximum rate through the next six months and assumed that rates would thereafter decline over twelve months to a rate in excess of the levels that the Company's securities priced at the inception of the transaction. The Company believes that these were reasonable assumptions as of December 31, 2007, the date of valuation, based upon market conditions at that time. Pursuant to FAS 140, the Company is required to revalue its Residual Interest each quarter. If other brokerdealers fail to support their auctions and liquidity in the market worsens further, at a subsequent valuation date the Company might find it necessary to further adjust its assumptions, likely resulting in a further impairment and potential write-down of its Residual Interest.

\* \* \*

The Company is currently working on a Securitization that it plans to execute, subject to market conditions, prior to the conclusion of its current fiscal year on June 30, 2008.

\* \* \*

Securitization refers to the technique of pooling loans and selling them to a special purpose, bankruptcy remote entity, typically a trust, which issues securities backed by those loans. The Company completed its first Securitization in June 2007, in which it recognized a gain of \$16.2 million from the sale of \$137.8 million of private student loans to a trust established by the Company; in September 2007, the Company sold \$32.4 million of additional private student loans to the trust and recorded a gain of \$4.1 million; in November 2007, the Company sold \$0.38 million of additional private student loans to the trust without gain. It is our intent to continue to securitize our student loans from time to time as sufficient volumes of loans are originated to efficiently execute such transactions.

63. The Company's financial statement, as contained in the February 14, 2008

10-Q, reported as follows:

<b>ASSETS</b>			
		<b>December 31, 2007</b>	<b>June 30, 2007</b>
	*	*	*
<i>Accounts receivable from securitizations</i>		<i>11,324,357</i>	<i>11,191,957</i>
	*	*	*
<b>TOTAL ASSETS</b>		<b>167,057,123</b>	<b>54,192,214</b>

\* \* \*

**OTHER INCOME**

*Securitization Income* 0 0

64. Although Defendants did discuss the ARS market in the February 14, 2008, 10-Q, Defendants still failed to disclose the true nature of the ARS market, or the fact that the favorable terms received in the June 2007 securitization were a result of manipulation of the ARS market by broker-dealers, including Merrill Lynch. Consequently, the February 14, 2008, Form 10-Q was false and misleading when made because it failed to disclose:

a) that the ARS market was illiquid and existed at the whim of the broker-dealers;

b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company;

e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

65. On February 14, 2008, the day after the ARS market collapsed, Defendants caused the Company to issue a press release *via* PRNewswire announcing financial results for the six month period ending December 31, 2007:

Student Loan Originations Increase 127% to Approximately \$187 Million for the First Half of FY 2008 vs. Increase of 17% in Core Operating Costs, Demonstrating Growing Scale of Business Model

Embark.com Launched with Tremendous Success, Generates over 375,000 Registered Users in Under Five Months of Launch

NEW YORK, Feb 14, 2008 /PRNewswire-FirstCall via COMTEX News Network/ -- MRU Holdings, Inc. (Nasdaq: UNCL), a specialty finance company that provides federal and private student loans through its consumer brand MyRichUncle(TM) and its relationships with private label partners, today announced results for the first half of its fiscal year 2008 . .

\* \* \*

Ed McGuinn, Chairman and CEO added, “While we continue to be in a difficult environment for financial services firms, we firmly believe that the core demand for student loans is sound and that the Company is well-situated to capitalize on it. Our management team has been focused and executed a number of strategic transactions admirably over the past quarter while growing the size and efficiency of our business. As the markets are recognizing the quality and outperformance of our assets vis-a-vis our peers, we believe the Company is well-positioned to access the capital markets to grow its portfolio of loans in the future.”

66. Defendants made no mention of the ARS market in this press release, despite the collapse of the greater ARS market the day before and the fact that the Company’s ability to originate loans was wholly dependent on the favorable terms afforded by the manipulation of that market by the broker-dealers. Consequently, the February 14, 2008 press release was false and misleading when made because it failed to disclose:

- a) that the ARS market was illiquid and existed at the whim of the broker-dealers;

b) that the illusion of liquidity created by the broker-dealers allowed the Company to pay a lower interest rate on the notes issued by the 2007 Trust than the Company would have to pay if the true nature of the ARS market was known to ARS investors;

c) that the spread created by this lower interest rate allowed the Company to securitize its student loans on favorable terms;

d) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company; and

e) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

67. On February 26, 2008, the Company furnished a copy of its February 26, 2008 investor presentation to the SEC *via* a Form 8-K, signed by Katz, which contained the same pages excerpted in paragraph 58 above, as well as the following:

## MRU's Strategy to Finance Portfolio Growth

---

### Securitization

- Deals are getting done at 100-150 bps wider than last year. Larger issuers with bank funding vehicles are not doing deals until levels come back.
- MRU feels that deal is doable for smaller issuers who are willing to empower investors with better information and transparency
- MRU is not competing with its own bonds in the secondary market unlike other issuers. No failed auctions in MRU's deals.
- MRU strategy is to file public securitization shelf and prepare second securitization of prime private student loans while concurrently working on a smaller private transaction



68. This investor presentation was false and misleading because it failed to disclose:

a) that once the true nature of the ARS market became known, the terms of future securitizations by the Company would not be favorable to the Company; and

b) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

69. On May 15, 2008, the Company filed its Quarterly Report on Form 10-Q for the period ending March 30, 2008, signed by McGuinn and Garg. The 10-Q stated:

On June 28, 2007, the Company closed its first securitization of its private student loan assets. The transaction was accounted for as a sale of the \$137.8 million of private student loans securitized. In connection with the sale, the Company booked a gain of \$16.2 million based upon the excess of the proceeds and value of the Residual Interest received over the carrying value of the assets sold. On September 25, 2007, the Company sold an additional \$32.4 million of private loans to the trust and booked a gain of \$4.1 million. On November 29, 2007, the Company sold an additional \$0.38 million of private loans to the trust. The Company values the retained Residual Interest at \$9.3 million, all of which are referred to as the Company's accounts receivable from the Securitization.

\* \* \*

#### *Subordinate Student Loan Auction Rate Bond Auction Failures*

Since March 31, 2008, the two auctions that have been held for the subordinate, single-A-rated auction rate notes in the Company's securitization have failed (*i.e.*, there was no clearing bid from investors and the broker-dealer did not otherwise provide a clearing bid). The economic impact of the failure of the subordinate, single-A-rated auction rate note auctions has been immaterial as the bonds had previously been pricing at very close to the maximum rate (LIBOR + 2.50%), where they priced upon the failure of the auction. The senior, triple-A-rated auction rate notes in the Company's securitization have never experienced an auction failure but continue to price very near at the maximum rate (LIBOR + 1.50%).

\* \* \*

For the quarter ended March 31, 2008, the Company adjusted its auction rate assumptions used to value its Residual Interest in its securitization, leading to a \$2.4 million reduction in the value of its residual, which resulted in a \$0.1 million adjustment to other comprehensive income and a \$2.3 million write-down, recorded as a negative Securitization Income.

\* \* \*

Broker-dealers may submit orders in auctions for their own account. As a result of such bidding, a broker-dealer may prevent a failed auction, or the interest rate resulting from an auction may be lower than the rate that would have prevailed had the broker-dealer not bid. A failed auction occurs when an existing owner does not have its notes purchased through the auction procedures because the amount of notes submitted for sale exceeds the amount of purchase orders. Broker dealers, which have served as underwriters of our securitization, have bid, and may continue to bid, in auctions relating to our trust's auction rate notes. These bids in the past

have both prevented failed auctions and supported interest rates determined at auction. Broker-dealers have no obligation to submit orders in auctions, and to the extent broker-dealers do not submit such bids in the future, the interest rates on our trusts' auction rate notes could be higher than they have been historically, including higher than the maximum rate, which would result in carryover interest, and there could be failed auctions for such notes.

As of March 31, 2008, we had not had any failed auctions. However, since that time two of the auctions of our single-A rated auction rate notes have failed. These auctions may continue to fail and there can be no assurance that the auctions of our triple-A rated auction rate notes will not fail in the future, given that triple-A auction rate securities of other student loan issuers have been experiencing auction failures since February 2008. Because the auctions of our single-A rated auction rate note failed, their interest rate was set at the maximum rate for their rating category, which is one-month LIBOR plus 2.50%. While our triple-A rated auction rate notes have not experienced a failed auction, they have been pricing at very nearly the maximum rate for their rating category, which is one-month LIBOR plus 1.50%. During the third quarter of fiscal 2008, we revised our assumption with regard to the future cost of funding of auction rate notes. We assumed at March 31, 2008 that all outstanding auction rate notes will continue to bear interest at the current spreads over one-month LIBOR for 18 months in the case of AAA/Aaa-rated securities and 24 months in the case of A2/A-rated securities and thereafter decline over 18 and 24 months, respectively, to spreads that are lower but higher than historical levels for auction rates. As a result, during the third quarter of fiscal 2008, we decreased the estimated fair value of our securitization receivable by \$2.4 million.

70. The Company's financial statement, as contained in the May 15, 2008

10-Q, reported as follows:

<b>ASSETS</b>		
(Dollars in Thousands)		
	<b>March 13, 2008</b>	<b>June 30, 2007</b>
<b>ASSETS:</b>		
	*	*
	*	*
<i>Accounts receivable from securitizations</i>	<i>9,263</i>	<i>11,192</i>
	*	*
	*	*
<b>TOTAL ASSETS</b>	<b>186,674</b>	<b>54,192</b>

\* \* \*

**OTHER INCOME**

*Securitization Income (Loss), Net* (2,270) 0

71. The May 15, 2008 10-Q marks the first time that Defendants revealed that broker-dealers had prevented auctions from failing in the past and that the broker-dealers had no obligation to continue to do so. Notwithstanding this discussion, Defendants still failed to disclose that the favorable terms received in the June 2007 securitization were a result of manipulation of the ARS market by broker-dealers, including Merrill Lynch. Consequently, the May 15, 2008 Form 10-Q was false and misleading when made because it failed to disclose that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

72. On May 15, 2008, Defendants caused the Company to issue a press release via PRNewswire announcing results for the nine months ending March 31, 2008. Defendants stated, among other things:

Student Loan Originations Increase 92% to Approximately \$230 Million for the First 9 Months of FY 2008 vs. Increase of 13% in Core Operating Costs, Demonstrating Growing Scale of Business Model

NEW YORK, May 15, 2008 /PRNewswire via COMTEX News Network/ -- NEW YORK, May 15 /PRNewswire-FirstCall/-- MRU Holdings, Inc. (Nasdaq: UNCL), a specialty finance company that provides federal and private student loans through its consumer brand MyRichUncle(R) and its relationships with private label partners, today announced results for the first 9 months of its fiscal year 2008 . . .

\* \* \*

“Our goal this quarter was to generate highly securitizable loans at a yield that reflected the new market environment in terms of cost of funds. We believe that we are one of the few private student loan originators that currently have liquidity to lend during the upcoming peak season and as we get a securitization or sale of our existing portfolio completed, we

believe we will have a significant competitive advantage in originating new private student loans. That will be the appropriate time to ramp up marketing,” said Vishal Garg, Chief Financial Officer, MRU Holdings.

73. The May 15, 2008 press release was false and misleading when made because it failed to disclose:

a) that the Company did not have sufficient “liquidity to lend during the upcoming peak season,” that is, the quarter ending September 30, 2008;

b) that the terms of future securitizations by the Company would not be favorable to the Company nor provide it with “a significant competitive advantage”; and

c) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company’s business model untenable.

74. On July 3, 2008, Defendants caused the Company to issue a press release via PRNewswire entitled “MRU Holdings Announces Pricing of \$140 MM Private Student Loan Securitization Transaction”:

NEW YORK, July 3 /PRNewswire-FirstCall/ -- MRU Holdings, Inc. (Nasdaq: UNCL), a specialty finance company that provides private student loans through its consumer brand MyRichUncle(R) and its relationships with private label partners, today announced that it had priced \$140 million of asset-backed securities, backed by its private student loan portfolio.

\* \* \*

“This is a landmark transaction for the Company. Our ability to execute this transaction demonstrates that our market-leading underwriting platform generates loans which have not only superior performance relative to its competitors but also superior marketability to ABS investors. The goal of this transaction was to establish market access and demonstrate the resilience of the Company’s business model in spite of

what can only be called a period of unprecedented market dislocation,” said Vishal Garg, Co-founder and Co-President of MRU Holdings, Inc.

\* \* \*

“This securitization is another step in the Company’s continued growth and affirms to parents and students that MRU will continue to honor its commitment to provide them with the best information and options on paying for college throughout these turbulent economic times,” added Raza Khan, Co-Founder and Co-President of MRU Holdings, Inc.

75. The July 3, 2008, press release was false and misleading when made because it failed to disclose:

- a) that the terms of the announced securitization would not be favorable to the Company; and
- b) that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company’s business model untenable.

### **THE TRUTH IS SLOWLY REVEALED**

76. On July 7, 2008, prior to the closing of the securitization, the Company furnished a copy of its July 7, 2008 investor presentation to the SEC *via* a Form 8-K, signed by Garg, which revealed that the bonds to be issued in the pending securitization would be issued at a discount, and that rather than generating revenue, the securitization would result in a significant write-down of assets. The Company stated, among other things:

#### Financing Provided By Transaction

- Principal of bonds issued: \$140.9 MM
- Bond proceeds: \$123.00 MM

- Bond proceeds are less than principal balance of bonds due to sale of securities at a discount.

\* \* \*

Financial Impact of the Transaction

\* \* \*

- Because MRU accounts for private student loans at lower of cost or market (LOCOM), we project that we may need to reduce the carrying basis of our private loan portfolio given the cost of funds of the securitization
  - Projected LOCOM adjustment: (\$10-12 million)
  - LOCOM adjustments are charged to earnings
- We also anticipate increasing the discount rate used to value the residual interest on our prior securitization which may lead to a residual writedown, and charge to earnings of \$3-4 MM

77. The price of the Company's shares dropped 9% to close at \$2.27 on July 7, 2008, and continued to drop rapidly thereafter, closing at \$1.85 on July 11, 2008, down 26% from the closing price of \$2.50 on July 6, 2008.

78. On August 18, 2008, Moody's Investors Services placed the ARSs issued by the 2007 Trust on review for downgrade, prompted by the failure of the ARS market.

79. The price of the Company's shares dropped 6.5% to close at \$1.14 on August 18, 2008, and continued to drop the next day, closing at \$1.05 on August 19, 2008, down 16% from the closing price of \$1.22 on August 15, 2008.

80. After the close of trading on September 5, 2008, the Company issued a

press release *via* PRNewswire entitled “MRU Holdings, Inc. Pauses Origination of Student Loans”:

NEW YORK, Sept 05, 2008 /PRNewswire-FirstCall via COMTEX News Network/ -- MRU Holdings, Inc. (Nasdaq: UNCL) is pausing the origination of private student loans, available through its MyRichUncle(R) website, [www.myrichuncle.com](http://www.myrichuncle.com), and its private label partners, effective today.

“The decision to pause our student loan program is the result of unprecedented and continued disruptions in the capital markets,” said Co-founder and Co-president Raza Khan. “We hope to resume originations soon, but we are compelled to pause at this time as we are reaching funding capacity limits, due to continued demand. To address this, we are working closely with a number of financial institutions to try to obtain funds that would enable us to continue to accept new customers. While we regret that we will have to pause receiving new applications, we continue to work with our existing families in 2008,” said Mr. Khan.

81. The price of the Company’s shares closed at \$0.71 on September 6, 2008, down 26% from the closing price of \$0.97 on September 5, 2008.

82. After the close of trading on September 19, 2008, the Company issued a press release *via* PRNewswire entitled “MRU Holdings, Inc. Announces Receipt of ‘Going Concern’ Opinion”:

NEW YORK, Sept 19, 2008 /PRNewswire-FirstCall via COMTEX News Network/ -- MRU Holdings, Inc. (Nasdaq: UNCL) announced today that its Annual Report on Form 10-K, filed with the Securities and Exchange Commission on September 15, 2008, included an audit report that contained a going concern qualification from its independent registered accounting firm.

NASDAQ Marketplace Rules require Nasdaq-listed companies to publicly announce the receipt of a “going concern” audit opinion. MRU Holdings also announced today that it received a letter, dated September 18, 2008, from The Nasdaq Stock Market notifying MRU Holdings that based on its Annual Report on Form 10-K for the period ended June 30, 2008, Nasdaq has determined that MRU Holdings’ stockholders’ equity does not comply with the minimum \$10.0 million stockholders’ equity requirement for continued listing on The Nasdaq Global Market set forth in Marketplace Rule 4450(a)(3). The Nasdaq staff is reviewing MRU Holdings’ eligibility for continued listing on The Nasdaq Global Market and has asked the

Company to provide, on or before October 3, 2008, a specific plan to achieve and sustain compliance with all of the Nasdaq Global Market listing requirements, including a time frame for completion of the plan. The Company intends to respond formally to the Nasdaq request for a plan on or before the October 3, 2008 deadline.

83. The price of the Company's shares dropped 20% to close at \$0.40 on September 20, 2008.

84. On February 9, 2009, the Company filed a voluntary petition for bankruptcy protection under Chapter 7 of the Bankruptcy Code.

### **SCIENTER ALLEGATIONS**

85. As alleged herein, Defendants knew or were reckless in not knowing that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading, knew that such statements or documents would be issued or disseminated to the investing public, and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents.

86. The Company's securitizations were a core component of its business, as demonstrated by the complete failure of the Company as a result of the unfavorable July 2008 securitization. In fact, more than half of the revenue generated by the Company was generated through its securitizations and utilization of the ARS market. Because the securitizations were a core component of the Company's business, and because the Company's securitizations were orchestrated using ARSs, Defendants either knew or were reckless in not knowing that there were not enough buyers to support the ARS market, and that as a result the market for ARSs existed at the whim of the broker-dealers.

87. Defendants also knew or were reckless in not knowing that without the

favorable terms available in the ARS market, the Company would not be able to generate sufficient capital to originate loans, making the Company's business model untenable. Despite this knowledge, Defendants continued throughout the Class Period to project dramatic growth in student loan originations and overstated the Company's Accounts Receivable from Securitizations, without disclosing the true nature of the ARS market.

88. As a result of Defendants' false and misleading statements, MRU's securities traded at inflated levels during the Class Period. However, following the disclosures described above, MRU's stock dropped by more than 94% from its Class Period high.

#### **LOSS CAUSATION**

89. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of MRU's securities and operated as a fraud or deceit on Class Period purchasers of MRU securities by misrepresenting the Company's business and prospects. Among other things, Defendants failed to disclose that the ARS market was illiquid and existed at the whim of the broker-dealers, and that without the favorable terms available in the ARS market as a result of this manipulation, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

90. On July 7, 2008, Defendants began to publicly disclose the extent of the Company's problems, causing the price of its securities to drop to \$2.27 per share – a one day decline of \$0.23 per share, or 9.2%. As a direct result of Defendants' admissions and the public revelations regarding the truth about MRU's profitability and its actual business prospects going forward, MRU's stock price dropped more than \$1 per share in

July, and continued to drop throughout August. Then, on August 18, 2008, Moody's Investors Service placed the ARSs issued by MRU on review for downgrade, driving the price of MRU shares even further, to \$1.05 per share. After the market closed on September 5, 2008, the Company "paused" the origination of student loans, which caused MRU's stock price to fall even further, closing on September 6, 2008 at \$0.71. Finally, after the market closed on September 19, 2008, the Company announced that it had received a "going concern" opinion, which caused MRU's stock price to plummet to \$0.40, down 94% from the Class Period high of \$7.30. This drop removed the inflation from MRU's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

## COUNT I

**PURSUANT TO § 10(b) OF THE EXCHANGE ACT  
AND SEC RULE 10b-5 PROMULGATED THEREUNDER  
(Against All Defendants)**

91. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

92. During the Class Period, Defendants carried out a plan, scheme, and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase MRU securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

93. Defendants: (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 not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for MRU's securities in violation of § 10(b) of the Exchange Act and Rule 10b-5.

94. Defendants, individually and in concert, directly and indirectly, by the use, means, or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations, and future prospects of MRU as specified herein.

95. Defendants employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about MRU and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices, and a course of business which operated as a fraud and deceit upon the purchasers of MRU securities during the Class Period.

96. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing MRU's operating condition and future business prospects from the investing public and supporting the artificially inflated

price of its securities. As set forth elsewhere herein in detail, Defendants acted with scienter in that Defendants knew or were reckless in not knowing, among other things, that the ARS market was illiquid and existed at the whim of the broker-dealers, and that without the favorable terms available in the ARS market as a result of manipulation by the broker-dealers, the Company would not have sufficient capital to originate loans, making the Company's business model untenable.

97. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of MRU securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of MRU's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by the Defendants but not disclosed in public statements during the Class Period, Plaintiff and the other members of the Class acquired MRU securities during the Class Period at artificially high prices, were unable to recover this inflation when the price of MRU securities dropped, and were damaged thereby. By virtue of the foregoing, Defendants violated § 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases of the Company's securities during the Class Period.

## COUNT II

### **PURSUANT TO § 20(a) OF THE EXCHANGE ACT** **(Against All Defendants)**

98. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

99. Defendants acted as controlling persons of MRU within the meaning of § 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions with the Company, their ownership of MRU securities, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

100. Defendants were each culpable participants in the violations alleged above by their acts and omissions. As a direct and proximate result of their wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

101. Therefore, Defendants are each liable jointly and severally with and to the same extent as MRU for the Company's violations of § 10(b) of the Exchange Act.

**WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: April 15, 2009

**MURRAY, FRANK & SAILER LLP**

S/

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Of Counsel:

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CERTIFICATION

I, Jake Vale, do hereby certify that:

1. I have reviewed the complaint and have authorized its filing.

2. I purchased the securities of MRU Holdings Inc., which are the subject of the complaint, *but not* at the direction of my counsel or in order to participate in any private action arising under the Securities Act of 1933 or Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995.

3. I am willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.

4. During the three year period prior to the date of this certification, I have sought to serve or served as a representative party on behalf of a class in an action brought under the federal securities laws in the following action:

*Jake Vale v. The First Marblehead Corporation, et al.*, 08-cv-10618 (S.D.N.Y.)

5. During the Class Period, I engaged in the following transactions:

TRANSACTION INFORMATION

<u>BUY OR SELL</u>	<u>TRADE DATE</u>	<u>NO. OF SHARES</u>	<u>PRICE PER SHARE</u>
Buy	12/9/08	2500	\$ .0344
Buy	12/9/08	833	\$ .0348
Buy	10/6/08	1501	\$ .332
Buy	3/27/08	999	\$ 2.27

6. I will not accept any payment for serving as a representative party on behalf of the Class beyond my *pro rata* share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class and my activities in the lawsuit, as ordered or approved by the Court.

7. Nothing herein shall be construed to be or constitute a waiver of my attorney-client privilege.

8. I certify under penalty of perjury that the foregoing is true and correct.

Executed on 3/2/2009.

Signature

