

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

NORTH PORT FIREFIGHTERS' PENSION –	§	Civil Action No.
LOCAL OPTION PLAN, Individually and on	§	
Behalf of All Others Similarly Situated	§	
	§	
Plaintiff,	§	
	§	
vs.	§	
	§	
TEMPLE-INLAND, INC., KENNETH M.	§	
JASTROW II, RANDALL D. LEVY,	§	
KENNETH R. DUBUQUE, RONALD D.	§	
MURFF, and CRAIG E. GIFFORD,	§	
	§	
Defendants.	§	
	§	
	§	

CLASS ACTION COMPLAINT

Plaintiff alleges the following based upon the investigation of Plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Temple-Inland, Inc. ("TIN") and Guaranty Financial Group Inc. ("GFG" or the "Company"), a review of the complaint filed by Kenneth L. Tepper, the Liquidation Trustee for GFGI Liquidation Trust and Assignee of the Federal Deposit Insurance Corporation, styled *Kenneth L. Tepper v. Temple-Inland, Inc., et al.*, No. 3:11-cv-02088 (N.D. Tex.) (the "*Tepper Complaint*"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, and press releases, media reports, and other public statements issued by or about the Company. Plaintiff believes that substantial 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 securities class action on behalf of purchasers of the common stock of GFG between December 12, 2007 and August 24, 2009, inclusive (the "Class Period"), against TIN and certain of TIN's and GFG's Officers and/or Directors during the relevant time period for violations the Securities Exchange Act of 1934 (the "Exchange Act"). On August 27, 2009, GFG and its wholly-owned subsidiaries filed voluntary petitions under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division. Accordingly, GFG and Guaranty Bank (the "Bank") are not named as Defendants in this lawsuit.

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act [15 U.S.C. §78aa] and 28 U.S.C. §1331.

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b) and (c). The Company maintained its executive offices in this District and many of the acts complained of herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

5. In connection with the acts and conduct complained of herein, 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 the New York Stock Exchange (the “NYSE”), a national securities market.

PARTIES

6. Plaintiff North Port Firefighters’ Pension – Local Option Plan, as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of GFG during the Class Period and has been damaged thereby.

7. Defendant TIN was a holding company that operated several businesses through its various subsidiaries, including corrugated packaging, forest products, building products, real estate and financial services businesses.

8. Defendant Kenneth M. Jastrow II (“Jastrow”) was Chief Executive Officer (“CEO”) of TIN and Chairman of its Board of Directors until December 28, 2007. Defendant Jastrow simultaneously served as Chairman of GFG’s and the Bank’s Boards of Directors until he retired from such roles on August 26, 2008, when Defendant Dubuque (defined below) was elected to serve as GFG’s Board Chairman.

9. Defendant, Randall D. Levy (“Levy”) was, at relevant times, Chief Financial Officer (“CFO”) of TIN.

10. Defendant Kenneth R. Dubuque (“Dubuque”) served as GFG’s and the Bank’s President, CEO and Director until his resignation from such positions on November 19, 2008.

11. Defendant Ronald D. Murff (“Murff”) served as Senior Executive Vice President and CFO of GFG. On October 27, 2008, Defendant Murff also assumed Defendant Gifford’s (defined below) duties and responsibilities as GFG’s Principal Accounting Officer. On July 10, 2009, Defendant Murff resigned from his positions as the Company’s Senior Executive Vice President, CFO and Chief Accounting Officer.

12. Defendant Craig E. Gifford (“Gifford”) served as GFG’s Controller until December 2007, when he became GFG’s Executive Vice President and Principal Accounting Officer, until his resignation from such positions on October 27, 2008.

13. Defendants Jastrow, Levy, Dubuque, Murff, and Gifford are collectively referred to herein as the “Individual Defendants.”

14. Defendants Dubuque, Murff, and Gifford are collectively referred to herein as the “GFG Defendants.”

CLASS ACTION ALLEGATIONS

15. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of itself and all persons who purchased or otherwise acquired the common stock of GFG during the Class Period and were damaged thereby (the “Class”). Excluded from the Class are Defendants, the officers and directors of the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

16. The members of the Class are so numerous that joinder of all members is impracticable. GFG had more than 35 million shares of stock outstanding during the Class Period, which were actively traded on the NYSE. 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 hundreds, if not thousands, of members in the proposed Class. Thus, the disposition of

their claims in a class action will provide substantial benefits to the parties and the Court. Record owners and other members of the Class may be identified from records maintained by GFG or its transfer agent. Notice can be provided to such record owners by a combination of published notice and first-class mail, using techniques and a form of notice similar to those customarily used in class actions arising under the federal securities laws.

17. Plaintiff will fairly and adequately represent and protect the interests of the members of the Class. Plaintiff has retained competent counsel experienced in class action litigation under the federal securities laws to further ensure such protection and intends to prosecute this action vigorously.

18. Plaintiff's claims are typical of the claims of the other members of the Class because Plaintiff and all the Class members' damages arise from and were caused by the same false and misleading representations and omissions made by or chargeable to Defendants. Plaintiff does not have any interests antagonistic to, or in conflict with, the Class.

19. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members to seek redress for the wrongful conduct alleged. Plaintiff knows of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

20. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely 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 Defendants omitted and/or misrepresented material facts, including those facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(c) whether Defendants knew or recklessly disregarded that their statements were false and misleading;

(d) whether the price of GFG common stock was artificially inflated during the Class Period; and

(e) the extent of injuries sustained by members of the Class and the appropriate measure of damages.

SUBSTANTIVE ALLEGATIONS

Background

21. At relevant times, TIN was a publicly held corporation engaged in various businesses, including a financial service business and its primary business, the manufacture and sale of building materials for use in the residential building industry. Prior to the beginning of the Class Period, TIN conducted its financial services business through GFG, which was then a wholly-owned subsidiary of TIN.

22. On November 29, 2007, TIN announced that its Board of Directors had formally approved a spin-off distribution (the “Spin-Off”) of TIN’s common shares in GFG to TIN’s stockholders. To implement the Spin-Off, TIN distributed to its stockholders one common share of GFG (and one related preferred stock purchase right) for every three shares of TIN common stock outstanding as of the close of business on December 14, 2007, the record date of the distribution.

23. At the time of the Spin-Off, GFG owned 100% of the stock of Guaranty Holdings Inc. I, which, in turn, wholly-owned the Bank, a federally chartered stock savings bank that began operations in 1988.

24. At all relevant times prior to the Spin-Off, TIN dominated and controlled GFG and its subsidiaries such that each was the alter-ego of TIN. Accordingly, TIN did not operate the Bank as a traditional bank, but rather operated the Bank as a captive finance arm of TIN's manufacturing operations and used the Bank to support, create demand and generate profits for its core building products business.

25. In addition, TIN possessed debt obligations that contained cross-default covenants, which provided that if GFG or the Bank became insolvent or failed to make loan payments, TIN's own debt obligations would default, resulting in severe financial ramifications to TIN, including bankruptcy. Accordingly, TIN was compelled to provide capital support to GFG and the Bank while they were subsidiaries of TIN.

26. During 2004, improprieties associated with the Bank's mortgage origination operations came to light, which culminated in an investigation and the issuance of a Cease and Desist Order by the Office of Thrift Supervision ("OTS"). As a result, the Bank's minimum capital requirements were increased and TIN was forced to terminate the Bank's mortgage origination operations.

27. Since TIN was forced to terminate the Bank's mortgage origination operations and increase the Bank's capital requirements, the Bank sought to bolster its profitability by investing in riskier asset classes that generated higher yields, including mortgage backed securities ("MBS").

28. This change in the Bank's investment strategy was the aftereffect of targeted rates of return on TIN's investment in GFG demanded by TIN and its Board of Directors. In an attempt to satisfy these imposed rates of return, the Bank accumulated an unsafe and unsound concentration of higher yielding, but highly risky homebuilder-focused, MBS. In fact, during 2006 and 2007, the Bank's MBS investments as a percentage of total assets substantially exceeded the percentage of

assets invested in such securities by similarly situated thrifts. This excessive concentration of high risk investments was a significant cause of the Bank's ultimate failure.

29. When the Bank first changed its investment strategy, it invested heavily in MBS issued by government-sponsored agencies, such as Fannie Mae and Freddie Mac. These government-sponsored agency securities, while of less perceived risk than MBS issued by private companies, typically yielded lower returns than the much riskier private-label securities.

30. Since the government-sponsored agency MBS did not satisfy the higher rates of return that TIN and its Directors demanded, the Bank reduced its percentage investment in the government-sponsored agency securities and invested a greater amount in higher risk, toxic private-label securities, which were collateralized by risky mortgages known as option adjustable rate mortgages ("option ARMS").¹

31. At September 30, 2007, the government-sponsored agency securities portion of the MBS portfolio was approximately 33% and the private-label portion was approximately 67% of the Bank's portfolio, a level that was unsafe and unsound and far surpassed the concentration of such investments held by other similarly sized thrifts.

32. Ultimately, the United States Department of Treasury, Office of Inspector General concluded that the Bank's investments in these higher-risk, private-label MBS caused its failure. *See* Department of the Treasury, Office of Inspector General, Safety and Soundness: Material Loss Review of Guaranty Bank (OIG-11-066) dated April 29, 2011 at p. 2, 3.

¹ An "option ARM" is typically a 30-year adjustable rate mortgage that initially offers the borrower various payment options, including: a specified minimum payment, an interest-only payment, a 15-year fully amortizing payment, or a 30-year fully amortizing payment. If a borrower selects a payment option that is less than the accruing mortgage interest, "negative amortization" results, meaning that the unpaid portion of the accruing interest is added to the outstanding principal balance.

Defendants' Fraudulent Scheme

33. Prior to the beginning of the Class Period, TIN recognized that the Bank's risky loan portfolio would contribute to sustained losses by the Bank and that such losses would result in adverse financial consequences to TIN. Defendants also recognized that TIN's own financial condition and stock price would suffer as a result and that TIN would inevitably be called upon by federal regulators to provide additional capital support for the Bank as its financial condition deteriorated.

34. Accordingly, on February 26, 2007, TIN issued a press release announcing that its Board of Directors had approved a plan that would divide it into three stand-alone public companies that separated TIN's financial services, real estate, and corrugated packaging and building products operations.

35. In that press release, Defendant Jastrow (who was also the Bank's and GFG's Board Chairman) proclaimed, "Each of the three public companies – manufacturing, financial services, and real estate – will be well positioned in the marketplace, have an appropriate capital structure, and will benefit from greater strategic focus."

36. As TIN moved forward with its plans to complete the Spin-Off, the Bank continued to acquire additional risky MBS, despite declining economic conditions. For example, on various dates in the third quarter of 2007, the Bank acquired the following risky MBS with aggregate principal amounts in excess of \$1.08 billion:

(a) SAMI 2007-AR6, A2, CUSIP 86364RAB5, in the principal amount of \$404 million;

(b) RALI 2007-QO5, A, CUSIP 74924AAA3, in the principal amount of \$204 million; and

(c) RALI 2007-QH8, A, CUSIP 74924EAA5, in the principal amount of \$473 million.

37. A substantial part of the mortgage loans underlying these illiquid MBS were risky option ARMs on California real estate. Defendants understood the extreme risk the Bank was taking by purchasing this large amount of private-label MBS, but did so nonetheless in its attempt to satisfy TIN's rate of return requirements.

38. For example, during this time frame, the Executive Committee of TIN's Board of Directors held a meeting wherein Defendant Jastrow opined that the real estate markets in California were deteriorating, partly due to adjustable rate mortgages being reset, coupled with mortgagor difficulties in obtaining refinancing in a tight credit underwriting market.

39. The deteriorating market conditions during 2007 had a material adverse effect on the value of the Bank's assets, especially because the Bank's risky MBS and loan portfolios consisted of a high concentration of California option ARMs.

40. Indeed, in light of these adverse market conditions, including dramatically increasing delinquency rates in a geographic area where the mortgages collateralizing the Bank's MBS and loan portfolios were concentrated, together with the increasing inability of home owners to refinance mortgages by reason of falling home prices and decreasing liquidity in the credit markets, Defendants knew or recklessly ignored that the Bank's risky MBS and loan portfolios were materially impaired.

41. In fact, given the concerns associated with the Bank's financial condition, Defendant Dubuque questioned the adequacy of the Bank's capital with a group of TIN's representatives prior to the Spin-Off and suggested that the Bank needed as much as \$200 million in additional capital. Nonetheless, Defendants ignored those concerns and proceeded to consummate the Spin-Off,

notwithstanding the prior assurances that GFG would be appropriately capitalized upon the Spin-Off.

42. While TIN was falsely characterizing the Bank as being well capitalized, on December 28, 2007, the date of the Spin-Off, the Bank and its parent, GFG, were then insolvent and undercapitalized. In fact, the minutes to the September 25, 2007 and October 20, 2007 Bank's Board of Directors meetings reflect that the Company's Directors, including those who sat on TIN's Board, recognized that the Bank was in need of additional capital.

43. In addition, Defendants knew or recklessly ignored that following the Spin-Off, in the absence of substantial additional capital, GFG would be unable to satisfy its debt obligations as they came due.

44. GFG's insolvency, lack of adequate capitalization, and inability to satisfy its debt obligations was driven in large part by the failure to properly value assets on GFG's and the Bank's balance sheet, including the Bank's risky and illiquid MBS and loan portfolios.

45. While Defendants knew or recklessly ignored that substantial losses were accruing in those portfolios, such losses were being treated as unrealized losses for accounting and regulatory purposes and were based on knowingly untrue and unrealistic assertions as of the effective date of the Spin-Off.

46. In its Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"), GFG reported \$212 million in unrealized losses on its MBS held-to-maturity, private-label portfolio. The existence of unrealized losses in this magnitude was known to Defendants prior to the effective date of the Spin-Off. Nonetheless, Defendants caused GFG and the Bank to treat such losses as unrealized for Generally Accepted Accounting Principles ("GAAP") and regulatory accounting purposes based on incorrect and untruthful assertions to the effect that: (a) TIN possessed the intent and ability to hold to maturity that portion of the Bank's MBS portfolio which it classified as held-

to-maturity securities; and (b) the losses sustained on the MBS portfolio were not “other than temporary impairments” as those terms are understood under GAAP.

47. In fact, the Bank’s Asset/Liability Management Committee recognized the need to discuss the impact of selling some or all of the MBS portfolio after the Spin-Off at a June 2007 committee meeting. In addition, an internal December 20, 2007 email between the Director of Quantitative Analysis and a Bank financial analyst responsible for, among other things, assessing whether losses on the Bank’s MBS portfolio had suffered “other than temporary impairments,” warned about the potential of catastrophic losses on the MBS portfolio and inquired about alternative plans for addressing such losses.

48. Moreover, Defendants caused GFG and the Bank to improperly value the Bank’s toxic MBS portfolio at the effective date of the Spin-Off in their attempt to materially understate and mask losses on such portfolio.

49. Nonetheless, Defendants pressed on with the Spin-Off, despite the fact that GFG and the Bank were insolvent and undercapitalized at that time.

50. Indeed, fully recognizing that the Bank was, in fact, inadequately capitalized, the respective Boards of GFG and the Bank promptly turned their attention to capital raising efforts after the Spin-Off and engaged investment banker Keefe, Bruyette & Woods, Inc. to undertake a rights offering. That offering, however, proved wholly unsuccessful and further efforts to achieve greater capitalization were pursued. In the end, however, capital sufficient to overcome the losses on the Bank’s toxic loan portfolio was not raised.

51. While the Bank’s capital raising efforts were underway, the value of various assets on the Bank’s balance sheet continued to deteriorate. GFG’s quarterly report on Form 10-Q for the quarter ended March 31, 2008 reflected losses on its available-for-sale MBS of \$423 million and unrealized losses on its held-to-maturity MBS of \$657 million. Likewise, GFG’s quarterly report on

Form 10-Q for the quarter ended June 30, 2008 reflected losses on the available-for-sale MBS of \$517 million and unrealized losses on its held-to-maturity MBS of \$904 million.

52. Similarly, GFG's quarterly report on Form 10-Q for the third quarter of 2008 reflected losses on its available-for-sale MBS of \$416 million and unrealized losses on its held-to-maturity MBS of \$788 million.

53. Throughout 2008, GFG continued to carry the vast majority of its held-to-maturity MBS at amortized cost and failed to record an impairment in the value of such securities based on continuing representations to the effect that GFG possessed the intent and the ability to hold those securities until repayment at maturity, and that, based on GFG's estimates of cash flows on the securities, it believed it would recover all stated interest and principal on those securities.

54. Near the end of 2008, disagreements arose between GFG, its regulators, and its auditor, Ernst & Young, as to the appropriate valuation of the Bank's very risky MBS portfolio and as to whether the unrealized losses in GFG's held-to-maturity MBS were impaired, thereby diminishing the value of those securities and the capital of the Bank.

55. On March 17, 2009, GFG filed a Form NY 10-K for the period ended December 31, 2008 (the "Form NT 10-K"). In that document, GFG stated that it was filing Notification of Late Filing because it was unable to file its 2008 Form 10-K because the Company had not completed its financial statements for the fiscal year ended December 31, 2008. In addition, the 2008 Form NT 10-K noted that GFG was continuing to analyze and discuss with its independent registered public accountants the appropriate valuation of its toxic MBS portfolio and whether such portfolio was impaired. The 2008 Form NT 10-K further noted that the outcome of that analysis could affect, among other things, the adequacy of the Company's capital and the extent to which additional capital would be required.

56. Moreover, the 2008 Form NT 10-K stated that GFG expected to report a loss of \$444 million for the year ended December 31, 2008, compared to earnings of \$78 million for the year ended December 31, 2007, and that depending upon the outcome of GFG's continuing review of the appropriate valuation of its risky MBS portfolio, including the extent of other-than-temporary impairment of that portfolio, the loss actually reported by GFG could be higher.

57. On March 31, 2009, GFG filed a Form NT 10-K/A (the "2008 Form NT 10-K/A"), amending the 2008 Form NT 10-K. The 2008 Form NT 10-K/A noted that on June 8, 2008, GFG disclosed that the Bank's Board of Directors adopted a resolution, based on a request by the OTS, that the Bank would maintain core and risk-based capital ratios of at least 8% and 11%, respectively. The 2008 Form NT 10-K/A further noted that, on a preliminary unaudited basis, the Bank had fallen below these prescribed capital ratios as of March 31, 2009.

58. On April 6, 2009, GFG and the Bank each consented to the issuance of an Order to Cease and Desist (the "C&D") by the OTS. The C&D placed significant restrictions on GFG's and the Bank's operations and required the Bank to meet and maintain a core-capital ratio equal to or greater than 8% and a total risk-based capital ratio equal to or greater than 11%.

59. On May 14, 2009, GFG filed Form NT 10-Q (the "March 2009 Form NT 10-Q"), providing notification of the late filing of GFG's quarterly report on Form 10-Q for the quarter ended March 31, 2009. The March 2009 Form NT 10-Q noted, among other things, the Bank's continuing inability to complete its financial statements and its continuing analysis and discussion with its independent registered public accountants regarding its valuation of its MBS portfolio, including the extent of an other-than-temporary impairment of that portfolio.

60. On July 23, 2009, GFG filed a current report on Form 8-K indicating that it and the Bank had filed an amended Thrift Financial Report ("TFR") as of and for the three months ended March 31, 2009 reflecting substantial asset write downs, which resulted in the Bank having negative

capital and being deemed critically undercapitalized. Such Form 8-K also disclosed that GFG did not believe that it was possible to raise sufficient capital to comply with the C&D and that it no longer believed that it would be able to continue as a going concern.

61. Thus, slightly more than 15 months after the Spin-Off, the financial institution that TIN had repeatedly trumpeted before the Spin-Off as being well capitalized and had repeatedly promised would be appropriately capitalized at the time of the Spin-Off, had negative capital and was critically undercapitalized.

62. On August 21, 2009, the OTS closed the Bank and appointed the FDIC as receiver.

63. On August 24, 2009, the NYSE announced that trading in GFG's common stock was no longer suitable for listing on the NYSE and that its trading on the NYSE should be immediately suspended.

64. On August 27, 2009, GFG filed for bankruptcy protection pursuant to Chapter 11 of the Bankruptcy Code. GFG's Directors resigned immediately after the bankruptcy filing.

65. The true facts, which were known by Defendants but concealed from the investing public during the Class Period, were as follows:

(a) the Company's financial results were artificially inflated due to the Bank's failure to state certain of its assets at their true fair value;

(b) the Company improperly delayed the recognition of its impaired assets in order to inflate its reported income and regulatory capital;

(c) the Company misrepresented its true financial condition, liquidity, capital and ability to repay its debt obligations;

(d) the Company would be unable to satisfy its future debt obligations as they matured;

(e) the Company's internal and disclosure controls were materially deficient;

(f) the Company, through the Bank, was engaged in unsafe and/or unsound banking practices;

(g) as a result of the foregoing, GFG's financial statements were not fairly presented in conformity with GAAP and were materially false and misleading; and

(h) based on the foregoing, Defendants lacked a reasonable basis for their positive statements about the Company, its prospects and growth.

MATERIALLY FALSE AND MISLEADING STATEMENTS

66. The Class Period begins on December 12, 2007 when, on information and belief, GFG's common shares began trading on a "when issued" basis.

67. Prior to December 12, 2007, on December 4, 2007, GFG filed with the SEC the fifth amendment to its Form 10 Registration Statement (the "Form 10 Registration Statement"). The Form 10 Registration Statement, which was signed by Defendant Dubuque, included GFG's historical and *pro-forma* financial statements for the nine months ended September 30, 2007. The Company's financial statements for the nine months ended September 30, 2007 reported net income of \$72 million and total shareholders' equity of \$1.045 billion at September 30, 2007.

68. On December 14, 2007, GFG filed a Form 8-K with the SEC that reiterated, in all material respects, the financial information contained in the Form 10 Registration Statement.

69. On December 28, 2007, TIN completed the Spin-Off of GFG.

70. On February 6, 2008, GFG issued a press release announcing its earnings for the fourth quarter and year ended December 31, 2007, which stated, in pertinent part, as follows:

Guaranty Financial Group Inc. (NYSE: GFG) ("Guaranty" or the "Company") today reported net income of \$78 million or \$2.20 diluted earnings per share for the year 2007 compared to \$121 million in 2006. Fourth quarter 2007 net income was \$6 million or \$0.17 diluted earnings per share compared to \$33 million in fourth quarter 2006.

* * *

Net interest income was \$391 million in 2007, a decrease of 5% from 2006, as a result of a 6% decrease in average earning assets related primarily to repayments on our mortgage-backed securities and single family mortgage loans. Net interest margin for 2007 was 2.59% compared to 2.58% for 2006, despite significant movement in short-term market rates and shifts in the yield curve.

Provision for credit losses was \$50 million in 2007 compared to \$1 million in 2006. The higher provision for credit losses was principally a result of weakness in single-family construction and single-family mortgage markets.

* * *

Total loans increased from \$9.6 billion at December 31, 2006 to \$9.9 billion at year end 2007. . . .

The investment portfolio increased from \$5.4 billion at December 31, 2006 to \$5.5 billion at year end 2007. This portfolio consists of agency and non-subprime private issuer mortgage-backed securities, all of which are triple-A rated, with significant levels of subordination as credit enhancement. Guaranty has not purchased and does not hold any private issuer securities that rely on support from bond insurers.

Defendant Dubuque commented on the results, stating, in pertinent part, as follows:

We are extremely excited about the new opportunities afforded us as a result of the spin-off from Temple-Inland. Our employees did an outstanding job of completing the operational aspects of the spin-off while also maintaining their focus on customer service. We now look forward to executing on a new strategy that leverages the size of our platform and the strength of our management team to create significant shareholder value.

Defendant Murff added, in pertinent part, as follows:

While market conditions certainly deteriorated in the latter half of 2007, we were relatively well-positioned prior to the sudden change in the housing and credit markets. For example, we sold our mortgage company and servicing assets in 2004 and 2005, and we completed the exit from this segment in early 2006. As a result, more than 96% of our single family mortgage portfolio was originated in 2005 and earlier. We did experience a significant increase in non-performing loans in the second half of 2007, principally out of our homebuilder portfolio. We have increased our allowance for loan losses from \$65 million at the end of 2006 to \$118 million at the end of 2007, which increased our allowance as a percentage of total loans from 0.68% to 1.17% during that same period. While we do not anticipate a recovery of the housing market in the near term, we feel that at this time we are appropriately reserved.

71. Following the Company's 2007 fourth quarter and year end earnings announcement, GFG Defendants held a conference call with analysts and investors, wherein Defendants Dubuque and Murff made positive statements about the Company and its business prospects.

72. In response to these positive statements, shares of GFG common stock rose 16.5%, or \$2.18 per share, to close at \$15.33 per share on heavy trading volume.

73. On February 29, 2008, GFG filed with the SEC the 2007 Form 10-K, which was signed by GFG Defendants and represented that GFG's financial statements for the year ended December 31, 2007, contained therein, were presented in conformity with GAAP. In addition, the 2007 Form 10-K included the following representations about the Company's disclosure and internal controls:

Disclosure controls and procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting

Management's annual report on internal control over financial reporting is included in Item 8. Financial Statements.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in fourth quarter 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

74. These representations about the Company's internal and disclosure controls were repeated in all material respects in the Forms 10-Q that GFG filed with the SEC during the remainder of the Class Period.

75. On April 29, 2008, GFG issued a press release announcing its earnings for the 2008 first quarter, the period ended March 31, 2008, which stated, in pertinent part, as follows:

Guaranty Financial Group Inc. (NYSE: GFG) ("Guaranty") today reported a net loss of \$10 million or \$0.28 loss per share for the first quarter 2008 compared to \$27 million net income for the first quarter 2007. Results include \$60 million higher provision for credit loss in first quarter 2008 compared to first quarter 2007.

* * *

Net interest income was \$98 million for the first quarter 2008, an increase of 3% from the first quarter 2007, principally as a result of growth in the commercial loan portfolio. Net interest margin for the first quarter 2008 was 2.49% compared to 2.56% for the first quarter 2007, remaining relatively stable despite significant recent movements in short-term market rates and shifts in the yield curve.

Provision for credit losses was \$58 million for the first quarter 2008 compared to a \$2 million credit for net recoveries for the first quarter 2007. The higher provision for credit losses was principally a result of continued weakness in single-family construction markets, particularly in northern and central California.

* * *

The carrying value of the investment portfolio decreased from \$5.5 billion at December 31, 2007 to \$4.9 billion at March 31, 2008. Approximately \$419 million of this decline was a result of unrealized losses within securities categorized as available-for-sale, and the remaining approximately \$200 million decline was a result of principal reduction and payoffs. This portfolio consists of agency and non-agency mortgage-backed securities, none of which are secured by sub-prime collateral, all of which remain triple-A rated, with significant levels of subordination as credit enhancement. Guaranty has not purchased and does not hold any non-agency securities that rely on support from bond insurers. Securities market conditions weakened considerably in the first quarter, and the unrealized losses on the entire portfolio of securities increased to nearly \$1.1 billion, none of which were considered other than temporary impairments or recognized in earnings.

Defendant Dubuque commented on the results, stating, in pertinent part, as follows:

While we remain excited about completing our first quarter as an independent publicly-traded company, it coincided with one of the most difficult times for our industry. Our employees, management, and board of directors are focused on near-term strategies related to credit, costs and capital, which will lead us through these

challenging times until we can further our long-term growth strategy, which we discussed at the end of the last quarter. As the second largest publicly-traded financial institution holding company headquartered in Texas, Guaranty is positioned well to execute this strategy.

Defendant Murff added, in pertinent part, as follows:

Market conditions certainly continued to deteriorate in first quarter 2008. We experienced continued increases in non-performing loans in the first quarter, principally out of our homebuilder portfolio. We have increased our allowance for loan losses from \$71 million at March 31, 2007 to \$172 million at March 31, 2008, which increased our allowance as a percentage of total loans from .74% to 1.67% during that same period. However, during that time frame of increasing reserves by more than \$100 million, actual net charge-offs were only \$7 million. While we do not anticipate a recovery of the housing market in the near term, we believe that at this time we are appropriately reserved.

76. Following the Company's 2008 first quarter earnings announcement, GFG Defendants held a conference call with analysts and investors, wherein Defendants Dubuque and Murff made positive statements about the Company and its business prospects.

77. In response to these announcements, GFG common stock declined almost 19% as the market absorbed the adverse news about the Company. Thereafter, the artificial inflation continued to remain in the price of GFG common stock.

78. On April 29, 2008, GFG filed with the SEC its Form 10-Q for the quarter ended March 31, 2008, which was signed by Defendant Gifford, and represented that GFG's financial statements contained therein for the quarter then-ended were presented in conformity with GAAP.

79. On May 1, 2008, GFG filed an S-1 Registration Statement (the "S-1") with the SEC proposing to offer GFG common shares.

80. On May 27, 2008, GFG filed a Form 8-K with the SEC announcing that the Company entered into an investment agreement pursuant to which an institutional investor agreed to purchase 7,423,333 shares of the Company's common stock at a price of \$5.17 per share for an aggregate purchase price of \$38.4 million.

81. On June 9, 2008, GFG filed a Form 8-K with the SEC announcing that the Company entered into investment agreements with several institutional investors pursuant to which the Company had agreed to sell 5.54 million shares of its Series B Mandatory Convertible Perpetual Cumulative Preferred Stock (the “Series B Preferred Stock”) for aggregate consideration of approximately \$286.6 million. Additionally, the Company and the Bank entered into a purchase agreement with institutional investors pursuant to which the Company and the Bank agreed to sell to such investors subordinated notes of the Bank with an aggregate original principal amount of \$275 million and 638,000 shares of Series B Preferred Stock for \$275 million.

82. On June 19, 2008, the S-1, offering up to \$150 million of GFG common shares, was declared effective by the SEC.

83. On July 22, 2008, GFG issued a press release announcing its previously disclosed private placement transactions had closed, resulting in total gross proceeds to the Company of approximately \$600 million.

84. On July 31, 2008, GFG issued a press release announcing its earnings for the 2008 second quarter, the period ended June 30, 2008, which stated, in pertinent part, as follows:

Guaranty Financial Group Inc. (NYSE: GFG) (“Guaranty” or the “Company”) today reported a net loss of \$85 million, or \$2.24 per share, for the second quarter 2008, compared to a net loss of \$10 million for the first quarter 2008, and \$24 million in net income for the second quarter 2007. The two primary issues impacting results for the second quarter 2008 were a provision for credit losses of \$99 million and a \$46 million charge to income tax expense to establish a valuation allowance on deferred tax assets.

Guaranty raised \$38.4 million in common equity in a private placement during the second quarter 2008 through the issuance of 7.4 million shares of common stock. At June 30, 2008, Guaranty Bank exceeded “well capitalized” regulatory standards. After June 30, 2008, Guaranty raised an additional \$562 million, before offering costs, through the issuance of convertible preferred stock and subordinated debt in a private placement closed and funded on July 21, 2008, resulting in total proceeds raised of approximately \$600 million, excluding offering costs, when added to the \$38.4 million common stock issuance during the second quarter. Following the additional capital raise, Guaranty Bank’s pro forma regulatory capital ratios were tier 1 leverage ratio of 9.5%, tier 1 risk-based ratio of 11.6% and total risk-based ratio of

14.6%, all of which further exceeded the “well capitalized” standards of 5%, 6% and 10%, respectively.

* * *

Second quarter 2008 provision for credit losses was \$99 million compared to less than \$1 million in provision for credit losses for the second quarter 2007 and \$58 million for the first quarter 2008. Net charge-offs increased to \$19 million in the second quarter 2008 from \$2 million in the first quarter 2008. For the first six months 2008, provision for credit losses was \$157 million compared to \$2 million net recoveries for the first six months 2007, and net charge-offs were \$21 million for the first six months 2008 compared to net recoveries of \$9 million in the first six months of 2007. The higher provision for credit losses was principally a result of continued weakness in single-family construction markets and an increase in provisioning for single-family mortgage loans.

* * *

The carrying value of the investment portfolio decreased from \$4.9 billion at March 31, 2008 to \$4.6 billion at June 30, 2008. Approximately \$100 million of this decline was a result of additional unrealized losses within securities categorized as available-for-sale, and the remaining decrease was a result of principal reduction and payoffs. This portfolio consists of agency and non-agency mortgage-backed securities, none of which are collateralized debt obligations, none of which are secured by sub-prime collateral, and all of which have significant levels of subordination as a credit enhancement. All except one of the non-agency securities remain triple-A rated. Guaranty has not purchased and does not hold any non-agency securities that rely on support from bond insurers. Securities market conditions weakened considerably during first six months 2008, and the net unrealized losses on the entire portfolio of securities increased to approximately \$1.4 billion, none of which were considered other than temporary impairments or recognized in earnings.

Defendant Dubuque commented on the results, stating, in pertinent part, as follows:

We are disappointed with our financial results for the quarter; however, following our successful capital raise, we have strengthened our capital position further beyond the ‘well capitalized’ regulatory standards. Last quarter we announced we were focused on near-term strategies related to credit, costs and capital, and we made significant progress on all three areas. We addressed credit challenges head-on, we were successful in cutting compensation and benefits expenses during the second quarter, and the infusion of \$600 million in new capital since the end of the previous quarter strengthens our balance sheet and reinforces our strong liquidity position. Today excess borrowing capacity is in excess of \$4.5 billion. In addition, core operating revenue remains strong, as evidenced by the greater than 5% increases in net interest income and noninterest income versus the same period one year ago.

Defendant Murff added, in pertinent part, as follows:

We experienced continued increases in non-performing loans in the second quarter, principally out of our homebuilder portfolio and single-family mortgage portfolio. We have further increased our allowance for loan losses from \$172 million at March 31, 2008 to \$250 million at June 30, 2008, which strengthened our allowance as a percentage of total loans from 1.67% to 2.44% during that same period. While we still do not anticipate a recovery of the housing market in the near term, we believe we are appropriately reserved at this time.

85. Following the Company's 2008 second quarter earnings announcement, GFG Defendants held a conference call with analysts and investors to discuss the Company and its business prospects.

86. In response to these announcements, GFG common stock declined almost 16% as the market absorbed the adverse news about the Company. Thereafter, the artificial inflation continued to remain in the price of GFG common stock.

87. On August 11, 2008, GFG filed with the SEC its Form 10-Q for the quarter ended June 30, 2008, which was signed by Defendant Gifford and represented that GFG's financial statements contained therein for the quarter then-ended were presented in conformity with GAAP.

88. On October 6, 2008, the Company issued a press release announcing that Defendant Gifford's would resign from his position as GFG's Principal Accounting Officer effective October 27, 2008 and that Defendant Murff would assume Defendant Gifford's duties and responsibilities.

89. On November 5, 2008, GFG issued a press release announcing its earnings for the 2008 third quarter, the period ended September 30, 2008, which stated, in pertinent part, as follows:

Guaranty Financial Group Inc. (NYSE: GFG) ("Guaranty" or the "Company") today reported a net loss of \$162 million for the third quarter 2008, compared to a net loss of \$85 million for the second quarter 2008, and \$21 million in net income for the third quarter 2007. Three primary non-cash charges impacting results for the third quarter 2008, which totaled \$152 million, are an \$85 million deferred income tax asset valuation charge, a \$53 million other-than-temporary-impairment charge on a mortgage-backed security, and a \$14 million impairment charge on goodwill and intangible assets related to the Company's insurance agency. The results also include provision for credit losses of \$78 million.

Guaranty raised \$562 million in capital, before offering costs, through the issuance of subordinated debt and convertible preferred stock in a private placement closed and

funded during the third quarter 2008. Total capital raised in the second and third quarters of 2008 is approximately \$600 million, excluding offering costs, when added to the \$38.4 million in capital raised during the last part of the second quarter 2008. The convertible preferred shares and accrued dividends were converted to approximately 63.5 million shares of common stock on October 1, 2008. With the new capital, Guaranty Bank's regulatory capital ratios at September 30, 2008 were tier 1 leverage ratio of 9.0%, tier 1 risk-based ratio of 9.7% and total risk-based ratio of 12.6%, all of which exceeded the "well capitalized" standards of 5%, 6% and 10%, respectively.

* * *

Third quarter 2008 provision for credit losses was \$78 million compared to \$19 million in provision for credit losses for the third quarter 2007 and \$99 million for the second quarter 2008. Net charge-offs increased to \$100 million in the third quarter 2008 from \$19 million in the second quarter 2008. For the first nine months 2008, provision for credit losses was \$235 million compared to \$17 million for the first nine months 2007, and net charge-offs were \$121 million for the first nine months 2008 compared to net recoveries of \$9 million in the first nine months of 2007. The higher provision for credit losses was principally a result of continued weakness in single-family construction markets and an increase in provisioning for single-family mortgage loans.

Third quarter 2008 noninterest income included a \$53 million charge for other-than-temporary impairment on one of the Company's non-agency mortgage-backed securities and a \$4 million loss on the sale of mortgage-backed securities, which resulted in overall noninterest income that was a loss of \$19 million for third quarter 2008, compared to noninterest income of \$41 million for the second quarter 2008.

* * *

The carrying value of the investment portfolio decreased from \$4.6 billion at June 30, 2008 to \$4.0 billion at September 30, 2008. Approximately \$200 million of this decline was a result of principal reduction and payoffs. The Company also sold agency securities totaling approximately \$400 million. This portfolio consists of agency and non-agency mortgage-backed securities, none of which are collateralized debt obligations, none of which are secured by sub-prime collateral, and all of which have significant levels of subordination as a credit enhancement. Guaranty has not purchased and does not hold any non-agency securities that rely on support from bond insurers.

Defendant Dubuque commented on the results, stating, in pertinent part, as follows:

We are pleased to have completed the private placement during the quarter that resulted in approximately \$600 million of new capital since May 2008, which strengthened our balance sheet and liquidity position. We have also recently benefited from a net inflow of \$1.8 billion in deposits in the month of October alone, which is an increase of approximately 20% since the end of the prior month. Today excess borrowing capacity is in excess of \$5.7 billion. On the other hand, we are

disappointed with our financial performance for the quarter, which included three non-cash charges totaling \$152 million during the quarter.

90. Following the Company's 2008 third quarter earnings announcement, GFG Defendants held a conference call with analysts and investors to discuss the Company and its business prospects.

91. In response to these announcements, GFG common stock declined 20% as the market absorbed the adverse news about the Company. Thereafter, the artificial inflation continued to remain in the price of GFG common stock.

92. On November 11, 2008, GFG filed with the SEC its Form 10-Q for the quarter ended June 30, 2008, which was signed by Defendant Murff and represented that GFG's financial statements contained therein for the quarter then-ended were presented in conformity with GAAP.

93. On November 19, 2008, the Company issued a press release announcing Defendant Dubuque's resignation from his position as GFG's Chairman of the Board, President and CEO effective November 18, 2008. The Company also announced the appointment of Kevin J. Hanigan, previously Senior Executive Vice President and Chief Banking Officer of the Company and the Bank, to fill the role of President and Chief Operating Officer of the Company and the Bank.

94. On December 17, 2008, the Company issued a press release announcing its commitment to reduce its workforce by approximately 10%, or approximately 250 employees.

95. On January 2, 2009, the Company issued a press release announcing the sale of its wholly-owned Guaranty Insurance Services, Inc. subsidiary for approximately \$40 million.

96. On March 17, 2009, the Company filed the 2008 Form NT 10-K with the SEC, which disclosed, in pertinent part:

Guaranty Financial Group Inc. (the "Company") is filing this Notification of Late Filing on Form 12b-25 with respect to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (the "Form 10-K"). The Company is unable, without unreasonable effort and expense, to timely file the Form 10-K because the Company has not completed its financial statements for the fiscal year ended

December 31, 2008. The Company is continuing to analyze and to discuss with its independent registered public accountants the appropriate valuation for balance sheet purposes of its mortgage-backed securities portfolio, including the extent of other than temporary impairment of this portfolio. The outcome of this analysis could affect, among other things, the adequacy of the Company's capital and the extent to which additional capital will be appropriate. The Company is also discussing the extent, and potential terms and conditions, of required new capital with its board of directors and its principal stockholders, as well as with government authorities. The Company currently expects to file the Form 10-K no later than the fifteenth calendar day following the prescribed due date.

97. On March 31, 2009, GFG filed a Form 8-K with the SEC, which disclosed, in pertinent part:

Guaranty Financial Group Inc. (the "Company") is filing this Report on Form 8-K to disclose that it has not completed its financial statements for the fiscal year ended December 31, 2008, and that accordingly it has not filed its Annual Report on Form 10-K for that year on a timely basis. As previously disclosed, the Company continues to review with its independent registered public accountants the appropriate valuation for balance sheet purposes of its mortgage-backed securities portfolio, including the extent of other-than-temporary impairment of this portfolio. The outcome of this analysis could affect, among other things, the adequacy of the Company's capital. This analysis could be affected by pending action by the Financial Accounting Standards Board with respect to the recognition and presentation of other-than-temporary impairment, as outlined in Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b.

On June 8, 2008, the Company disclosed that Guaranty Bank's board of directors adopted a resolution, at the request of the Office of Thrift Supervision ("OTS"), confirming, among other things, that Guaranty Bank will maintain Core and Risk-based capital ratios of at least 8% and 11%, respectively. On a preliminary unaudited basis, we believe that we have fallen below these prescribed capital ratios as of March 31, 2009. Our capital ratios could be impacted by the anticipated decision of the Financial Accounting Standards Board discussed above. These ratios are also impacted by regulatory requirements for capital treatment of our mortgage-backed securities portfolio. Guaranty Bank is discussing with OTS the capital treatment of our mortgage-backed securities, and additional enforcement action beyond the capital maintenance resolution.

Also, as previously disclosed, on a preliminary unaudited basis the Company anticipates that it will report that it incurred a loss of \$444 million, or a loss of \$8.84 per diluted share, for the year ended December 31, 2008, compared to earnings of \$78 million, or \$2.20 per diluted share, for the year ended December 31, 2007. Depending on the final determination of the appropriate valuation of the mortgage-backed securities portfolio, including the extent of other-than-temporary impairment of this portfolio, the loss actually reported by the Company could be higher.

The Company is in discussions with its board of directors and principal stockholders, as well as with government authorities, concerning raising substantial additional equity capital which, if completed, would result in significant dilution for the current common stockholders. No agreements have been reached with respect to this capital infusion.

98. On May 14, 2009, the Company filed the March 2009 Form NT 10-Q with the SEC, which disclosed that GFG was unable to timely file its Form 10-Q for the quarter ended March 31, 2009.

99. On July 10, 2009, the Company filed a Form 8-K with the SEC announcing that Defendant Murff had resigned as the Company's Senior Executive Vice President, CFO and Chief Accounting Officer and that GFG's Board of Directors appointed Stephen C. Raffaele to assume Defendant Murff's duties and responsibilities on that date. The Company also announced that Kevin J. Hanigan was elected to serve as Chairman of the Board of Directors and CEO in addition to his role as President of GFG.

100. On July 23, 2009, the Company filed a Form 8-K with the SEC announcing that, at the OTS's direction, the Bank filed an amended TFR as of and for the three months ended March 31, 2009. The amended TFR reflected substantial Bank asset write downs, including a write down of the non-agency MBS resulting in an impairment charge in the amount of \$1.45 billion and a goodwill impairment in the amount of \$106.6 million.

101. On August 17, 2009, the Company filed a Form NT 10-Q with the SEC, which disclosed that GFG was unable to timely file its Form 10-Q for the quarter ended June 30, 2009.

102. On August 24, 2009, the Company filed a Form 8-K with the SEC disclosing that the Bank was closed by the OTS and that the FDIC was appointed as receiver to the Bank. The Company also disclosed that the NYSE suspended trading in GFG common stock.

103. As a result of Defendants' false and misleading statements and omissions, GFG common stock traded at artificially inflated prices during the Class Period. As the above negative

news became known to the market over time, GFG common stock declined from a high of \$18.50 on the first day of the Class Period to \$0.15 on the last day of the Class Period.

104. The true facts, which were known by Defendants but concealed from the investing public during the Class Period, were as follows:

(a) the Company's financial results were artificially inflated due to the Bank's failure to state certain of its assets at their true fair value;

(b) the Company improperly delayed the recognition of its impaired assets in order to inflate its reported income and regulatory capital;

(c) the Company misrepresented its true financial condition, liquidity, capital and ability to repay its debt obligations;

(d) the Company would be unable to satisfy its future debt obligations as they matured;

(e) the Company's internal and disclosure controls were materially deficient;

(f) the Company, through the Bank, was engaged in unsafe and/or unsound banking practices;

(g) as a result of the foregoing, GFG's financial statements were not fairly presented in conformity with GAAP and were materially false and misleading; and

(h) based on the foregoing, Defendants lacked a reasonable basis for their positive statements about the Company, its prospects and growth.

Additional Scienter Allegations

105. As alleged herein, Defendants acted with scienter in that they knew, or recklessly disregarded, that the public documents and statements they issued and disseminated to the investing public in the name of the Company or in their own name during the Class Period were materially false and misleading. Defendants knowingly and substantially participated or acquiesced in the

issuance or dissemination of such statements and documents as primary violations of the federal securities laws. Defendants, by virtue of their receipt of information reflecting the true facts regarding GFG, their control over, and/or receipt and/or modification of GFG's allegedly materially misleading misstatements, were active and culpable participants in the fraudulent scheme alleged herein.

106. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The fraudulent scheme described herein could not have been perpetrated during the Class Period without the knowledge and complicity or, at least, the reckless disregard of the personnel at the highest levels of the Company, including the Individual Defendants.

107. The Individual Defendants, because of their respective positions, controlled the contents of the Company's public statements during the Class Period. Each Defendant was provided with or had access to copies of the documents alleged herein to be false and/or misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information, these Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations that were being made were false and misleading. As a result, each of these Defendants is responsible for the accuracy of GFG's corporate statements and are therefore responsible and liable for the representations contained therein.

108. The scienter of Defendants is underscored by the Sarbanes-Oxley mandated certifications of Defendants Dubuque and Murff, who acknowledged their responsibility to investors for establishing and maintaining controls to ensure that material information about GFG was made known to them and that the Company's disclosure related controls were operating effectively.

109. Defendants were motivated to engage in the fraudulent course of conduct alleged herein in order to facilitate the Company's ability to raise desperately needed capital. Indeed, the fraud alleged herein enabled GFG to procure over \$600 million in financing at a time when capital raising in the marketplace had screeched to a decided halt. Those proceeds would have been unobtainable but for Defendants' fraudulent concealment of the fact that GFG was insolvent and its loan portfolio was grossly overstated during the Class Period.

110. Indeed, GFG Defendants pushed forward with the Company's capital raising efforts during the Class Period when they knew that the Company was insolvent and that its loan portfolios were grossly overstated. Rather than updating the marketplace about the true state of the Company's financial condition, GFG Defendants permitted the Company's capital raising efforts to occur at a price that was based upon a false perception of the Company's financial condition.

Loss Causation/Economic Loss

111. 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 prices of GFG common stock and operated as a fraud or deceit on Class Period purchasers of GFG common stock. By failing to disclose and misrepresenting the adverse facts associated with GFG's loan portfolio and its solvency, among other adverse facts detailed herein, Defendants presented a false and misleading picture of GFG's business and prospects. Defendants' false and misleading statements had the intended effect and caused GFG common stock to trade at artificially inflated levels throughout the Class Period, trading as high as \$18.50 per share during the Class Period.

112. As Defendants' prior misrepresentations and fraudulent conduct seeped into and were absorbed by the marketplace, the price of GFG common stock declined as the prior artificial inflation came out. As a result of their purchase and/or acquisition of GFG common stock during the

Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws.

113. The steady and precipitous decline in GFG common stock during the Class Period was a direct result of the nature and extent of Defendants' fraud being absorbed and understood by investors and the market through a series of partial disclosures. The timing and magnitude of the price decline in GFG common stock negates any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the prices of GFG common stock and the subsequent declines in the value of GFG common stock was the result of Defendants' prior misrepresentations and other fraudulent conduct being revealed to the marketplace.

**Applicability of Presumption of Reliance:
Fraud on the Market Doctrine**

114. At all relevant times, the market for GFG common stock was an efficient market for the following reasons, among others:

- (a) GFG common stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;
- (b) As a regulated issuer, GFG filed periodic public reports with the SEC, NYSE and Federal Banking regulators;
- (c) GFG regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) GFG was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

115. As a result of the foregoing, the market for GFG common stock promptly digested current information regarding GFG from all publicly available sources and reflected such information in the prices of the publicly traded securities. Under these circumstances, all purchasers of GFG common stock during the Class Period suffered similar injury through their purchase of GFG common stock at artificially inflated prices and a presumption of reliance applies.

No Safe Harbor

116. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, 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. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of GFG who knew that those statements were false when made.

COUNT I

**Violation of Section 10(b) of
the Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants**

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

118. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

119. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they:

- (a) employed devices, schemes, and artifices to defraud;
- (b) made untrue statements of material facts and/or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

- (c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of GFG common stock during the Class Period.

120. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for GFG. Plaintiff and the Class would not have purchased GFG common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

121. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchase or acquisition of GFG common stock during the Class Period. Plaintiff and other members of the Class suffered

economic loss, *i.e.*, damages, under the federal securities laws when the above-described revelations were absorbed by the market and the artificial inflation in the price of GFG common shares was removed.

122. Plaintiff could not have learned of the extent of Defendants' intentional conduct until the *Tepper* Complaint was filed in August 2011.

COUNT II

Violation of Section 20(a) of the Exchange Act Against the Individual Defendants

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

124. The Individual Defendants acted as controlling persons of GFG within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of TIN and GFG, and their ownership of GFG common stock, the Individual Defendants had the power and authority to cause GFG to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of itself and the Class, prays for judgment as follows:

A. Determining that this action is a proper class action, certifying Plaintiff as Class representative and designating Lead Counsel as Class Counsel under Rules 23(a), (b)(3) and (g) of the Federal Rules of Civil Procedure;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, 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 attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and

D. Awarding Plaintiff and the Class such other and further relief as the Court may deem just and proper under the circumstances.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: November 11, 2011

KENDALL LAW GROUP, LLP
JOE KENDALL (State Bar No. 11260700)
JAMIE J. McKEY (State Bar No. 24045262)

/s/ Joe Kendall

JOE KENDALL

3232 McKinney, Suite 700
Dallas, TX 75204
Telephone: 214/74-3000
214/744-3015 (fax)

ROBBINS GELLER RUDMAN
& DOWD LLP
SAMUEL H. RUDMAN
MARIO ALBA JR.
58 South Service Road, Suite 200
Melville, NY 11747
Telephone: 631/367-7100
631/367-1173 (fax)
srudman@rgrdlaw.com
malba@rgrdlaw.com

SUGARMAN & SUSSKIND, P.A.
ROBERT A. SUGARMAN
100 Miracle Mile, Suite 300
Coral Gables, Florida 33134
Telephone: 305/529-2801
305/447-8115 (fax)

Attorneys for Plaintiff