UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
WACO DIVISION

GERALD A. TAYLOR, Individually and On Behalf of All Others Similarly Situated,	§	**CIVIL ACTION NO.**
Plaintiff,	§	
vs.	§	
LIFE PARTNERS HOLDINGS, INC., BRIAN D. PARDO, NINA PIPER, DAVID M. MARTIN and R. SCOTT PEDEN,	§	**JURY TRIAL DEMANDED**
Defendants.	§	

PLAINTIFF'S ORIGINAL CLASS ACTION COMPLAINT

Plaintiff, Gerald A. Taylor ("Plaintiff"), alleges the following based upon the investigation of Plaintiff's counsel, which included, among other things, a review of defendants' public documents, conference calls and announcements, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Life Partners Holdings, Inc. ("Life Partners" or the "Company") and securities analysts' reports and advisories 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 AND OVERVIEW

1. This is a federal class action on behalf of purchasers of the securities of Life Partners, who purchased or otherwise acquired Life Partners securities between May 29, 2007 and January 19, 2011 inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Life Partners is a specialty financial services company and the parent company of

Life Partners, Inc. ("LPI"). LPI is engaged in the secondary market for life insurance known generally as "life settlements." Life settlement transactions involve the sale of an existing life insurance policy to another party. By selling the policy, the policyholder receives an immediate cash payment to use as he or she wishes. The purchaser takes an ownership interest in the policy at a discount to its face value and receives their ownership interest in the death benefit under the policy when the insured dies. The Company acts as a purchasing agent for life settlement purchasers. In performing these services, Life Partners identifies, qualifies and purchases policies on behalf of its clients that match their buying parameters and return expectations. The Company's operating revenues are derived from fees for facilitating life settlement transactions between sellers and purchasers.

3. On December 21, 2010, *The Wall Street Journal* published an article questioning the Company's life-expectancy estimates and business practices. The article followed a comprehensive investigation into how the Company sold life settlement policies to investors. In particular, the article stated that Life Partners "has made large fees from its life-insurance transactions while often significantly underestimating the life expectancies of people whose policies its customers invest in."

4. Then on January 20, 2011, *The Wall Street Journal* reported, and the Company subsequently confirmed, that the SEC was investigating Life Partners. The article reported that "As part of its probe, the SEC's enforcement division has been seeking experts to analyze the way Life Partners has estimated the life expectancies of the insured individuals."

5. On this news, shares of the Company's stock declined $2.58 per share, or over 17 percent, to close on January 20, 2011 at $12.46 per share, on unusually heavy trading volume. The Company's stock continued to decline as additional news about Life Partners was

subsequently reported.

6. The Complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company's financial well-being, business relationships, and prospects. Specifically, defendants failed to disclose or indicate the following: (1) that the Company had routinely used unrealistic life expectancy data that produced inaccurately short life expectancy reports, which were subsequently used to sell life settlement policies to investors; (2) that the Company had purposely concealed the historical rate in which individuals insured by life settlement policies sold by Life Partners had lived past the life expectancy rates previously provided to investors, such that the Company's investors were unable to assess the accuracy or reliability of such data; (3) that by underestimating the life expectancy data to investors, the Company was able to charge substantially larger fees when brokering life settlement policies; (4) that the Company's revenues had been significantly increased through the employment of such business practices; (5) that, as a result, the Company's financial statements were false and misleading at all relevant times; (6) that such business practices, when they were discovered, would initiate an investigation by the federal authorities into the Company's business practices; (7) that the Company lacked adequate internal and financial controls; and (8) that, as a result of the foregoing, the Company's statements about its financial well-being and future business prospects were lacking in any reasonable basis when made.

7. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class Members suffered damages.

JURISDICTION AND VENUE

8. The claims asserted herein arise under and pursuant 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).

9. 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.

10. Venue is proper in this District pursuant to pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Additionally, Life Partners' principal executive offices are located within this District.

11. 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.

PARTIES

12. Plaintiff, Gerald A. Taylor, as set forth in the accompanying certification, incorporated by reference herein, purchased Life Partners securities at artificially inflated prices during the Class Period and has been damaged thereby.

13. Defendant Life Partners is a Texas corporation with its principal executive offices located at 204 Woodhew Drive, Waco, Texas.

14. Defendant Brian D. Pardo ("Pardo") was, at all relevant times, the Company's President, Chief Executive Officer ("CEO"), and Chairman of the Board of Directors.

15. Defendant Nina Piper ("Piper") was, at relevant times, the Company's Chief Financial Officer ("CFO") until 2007.

16. Defendant David M. Martin ("Martin") was, at relevant times, the Company's CFO.

17. Defendant R. Scott Peden ("Peden") was, at all relevant times, the President of LPI and Life Partners' General Counsel.

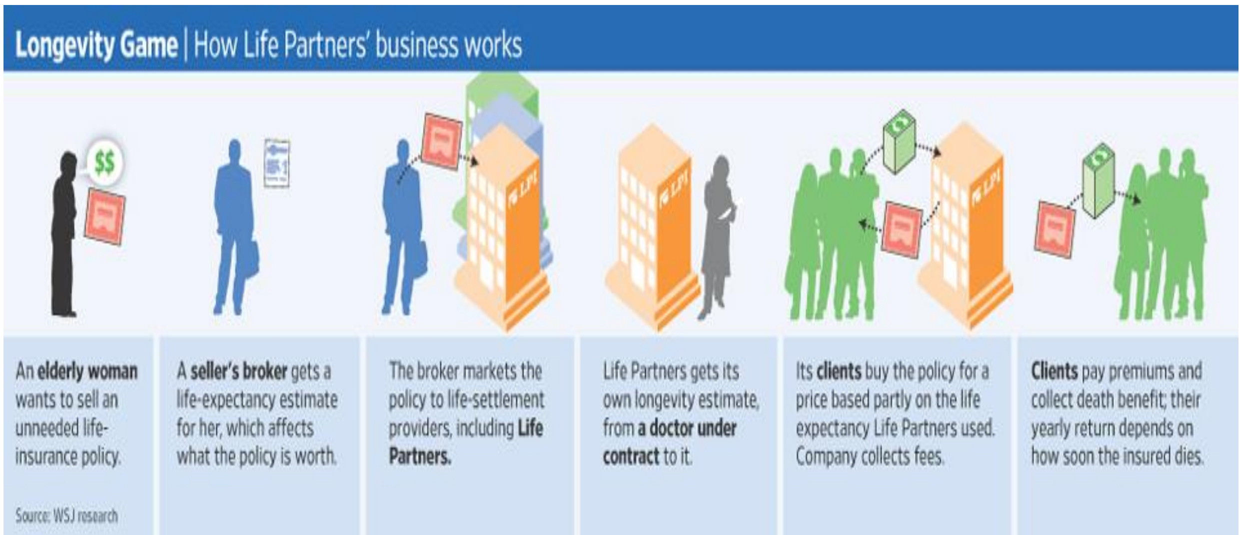
18. Defendants Pardo, Piper, Martin and Peden are collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Life Partners' reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be 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 available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading.

SUBSTANTIVE ALLEGATIONS

Background

19. Life Partners is a specialty financial services company and the parent company of Life Partners, Inc. ("LPI"). LPI is engaged in the secondary market for life insurance known generally as "life settlements." Life settlement transactions involve the sale of an existing life insurance policy to another party. By selling the policy, the policyholder receives an immediate cash payment to use as he or she wishes. The purchaser takes an ownership interest in the policy at a discount to its face value and receives the value of their ownership interest in the death benefit under the policy when the insured dies. The Company acts as a purchasing agent for life settlement purchasers. In performing these services, Life Partners identifies, qualifies and

purchases policies on behalf of its clients that match their buying parameters and return expectations. The Company's operating revenues are derived from fees for facilitating life settlement transactions between sellers and purchasers. The *Wall Street Journal* recently provided a diagram of how the Company's business works:



20. According to the Company's most recent Form 10-K, filed with the SEC on May 12, 2010:

> For most of the policies that we broker on behalf of our clients, the insureds have a life expectancy of between 48 months and 60 months, although we can identify policies with longer life expectancies or other purchasing parameters if requested by our clients. As we identify and qualify policies, we distribute insurance and current medical status information on these policies (with the insured's name and other identifying information redacted) throughout our financial planner network. … Purchasers can then, in consultation with their financial planner or other professionals, select one or more policies, specify the portion of the policy or policies to be purchased and submit a reservation electronically. To diversify their positions, retail purchasers generally buy fractional interests in one or more policies and not an entire policy[.]

Materially False and Misleading
<u>Statements Issued During the Class Period</u>

21. The Class Period begins on May 29, 2007. On this day, the Company filed its fiscal 2007 Annual Report with the SEC on Form 10-KSB. The Form 10-KSB was signed by

defendants Pardo, Piper and Peden, and reported revenues of $29.8 million, income from operations of $4.7 million, net income of $3.6 million, and earnings per share of $0.36 for fiscal 2007 (ended February 28, 2007). The Form 10-KSB also stated:

> We are a financial services company, providing purchasing services for life settlements to our client base. We do this by matching life settlors with purchasers. We facilitate these transactions by identifying, examining, and purchasing the policies as agent for the purchasers. In order to meet market demand and maximize our value to our clients, we have made significant investment in proprietary software and processes that enable us to facilitate a higher volume of transactions while maintaining our quality controls. Since our inception, we have facilitated over 50,000 purchaser transactions associated with the purchase of over 5,600 policies. We believe our experience, infrastructure and intellectual capital gives us a unique market position and will enable us to maintain sustainable growth within the life settlement market.
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> We match life settlors with purchasers. We act as agent for settlement purchasers, for whom we identify and qualify policies. We locate potential life settlors through a network of brokers, insurance, financial and estate planning professionals, through personal referrals and through Internet and print media advertising. Brokers are typically compensated based on a percentage of the face value of the policy sold, which is paid upon the closing of a settlement. Estate planning professionals and financial planners typically operate on a fee-for-service basis, which is paid directly by their client. We have long-term relationships with most of the country's life settlement brokers and believe that these brokers adhere to applicable regulatory requirements when conducting their business. In the fiscal year ended February 28, 2007, broker referrals accounted for 90% of the total face value of policies transacted, which is approximately the same compared to fiscal 2006. Policies presented from two brokers constituted 73% of the total face value of all completed transactions presented by brokers during fiscal 2007. This compares to a concentration of 68% of the total face value of all completed transactions from two brokers in fiscal 2006.
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> *   *   *
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> Unlike some of our competitors, which have more restrictive purchasing parameters or a single provider of investment capital, we have developed markets for all types of life expectancies in order to accommodate the investment goals of our clients as well as the individual circumstances of the policies presented to us. We believe this diversified capital business model makes us more competitive in the market and provides us with greater flexibility. We also believe that this model provides a stronger platform for our sustainable growth as a company. Markets are segmented by length of life expectancy and policy face value. The amount of competition in these markets varies according to the demand for such policies.

22. The Form 10-KSB also discussed the Company's revenues and demand for its services:

> *Revenues* - Revenues increased by $9,711,670, or 48% from $20,083,653 in fiscal 2006 to $29,795,323 in fiscal 2007. This increase was due primarily to a 73% increase in our total business volume as measured by the face value of all policy settlements transacted through us and a 75% increase in the average revenue per settlement from $77,543 in fiscal 2006 to $135,433 in fiscal 2007. The number of settlements we transacted this year decreased by 18% from last year continuing a trend toward fewer number of transactions, but with larger face amounts.
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> During the period, demand for our services remained strong and the number of policies presented to us and meeting our purchasing qualifications remained steady. Growth in demand was especially strong for policies with higher face values among both institutional and non-institutional clients, and we anticipate this demand trend to continue for the foreseeable future. Most of our competitors have adopted a single or preferred client business model, which relies on a relatively narrow purchaser base. In contrast, we employ a broad based, multi-client business model and our purchaser base is much broader. During this period, one institutional purchaser accounted for more than ten percent of our revenues. While a single purchaser may account for a substantial share of revenues during a particular quarterly period, we do not intend to become reliant upon any single purchaser and expect that no single purchaser will account for a substantial share of revenues during the long-term. With our multi-client business model, we believe we can serve the demand for all our current and future clients. We believe this business model will permit us to achieve sustainable growth for the foreseeable future, without the risks associated with a single or limited number of clients.
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> We believe the increasing demand for our services results primarily from two factors, one of which is an investment trend toward diversifying investment portfolios and avoiding economically sensitive investments. Returns on life settlements are linked to the lives of the insureds. As such, the settlements function independently from traditional equity and debt markets and commodity investments. As the oldest and one of the largest providers of life settlements, we benefit from these trends in the investing community. Demand for our services emanates from both domestic and international purchasers, and the ratio of domestic clients to international clients was relatively unchanged from last year. In fiscal 2007, approximately 81% of our business was from domestic purchasers while approximately 19% was from foreign purchasers. In fiscal 2006, this ratio was 86% from domestic business and 14% from foreign business. We do not anticipate significant changes in the ratio between domestic and foreign business. During fiscal 2007, we advised and made purchases for a closed-end fund based in the Bahamas and we anticipate the launch of a third fund by the same fund managers during the 2008 fiscal year.

*   *   *

The following table shows the number of viatical and life settlement contracts we have transacted, the aggregate face values and purchase prices of those contracts, and the revenues we derived, for our fiscal years ended February 28, 2005, 2006 and 2007:

	2005	**2006**	**2007**
Number of settlements	289	259	220
Face value of policies	$65,082,000	$87,275,000	$151,397,000
Average revenue per settlement	$64,865	$77,543	$135,433
Total net revenues derived (1)	$91,166,000	$8,485,000	$12,231.000

(1) The revenues derived are exclusive of brokerage and referral fees.

23. The Company's Form 10-KSB also contained Sarbanes-Oxley required certifications, signed by Defendants Pardo and Piper, which stated:

I, [Brian D. Pardo / Nina Piper], certify that:

1. I have reviewed this annual report on Form 10-KSB of Life Partners Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; and

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

For the Annual Report of Life Partners Holdings, Inc. (the "Company") on Form 10-KSB for the period ending February 28, 2007 (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify that:

(i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

24. On May 15, 2008, the Company filed its fiscal 2008 Annual Report with the SEC on Form 10-K. The Form 10-K was signed by defendants Pardo, Martin and Peden, among others, and reported revenues of $72.6 million, income from operations of $28.1 million, net income of $18.7 million, and earnings per share of $1.56 for fiscal 2008 (ended February 29,

2008). The Form 10-K also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶ 23, *supra*. Additionally, the Form 10-K stated:

> We are a financial services company, providing purchasing services for life settlements to our client base. We do this by matching life settlors with purchasers. We facilitate these transactions by identifying, examining, and purchasing the policies as agent for the purchasers. In order to meet market demand and maximize our value to our clients, we have made significant investment in proprietary software and processes that enable us to facilitate a higher volume of transactions while maintaining our quality controls. Since our inception, we have facilitated over 50,000 purchaser transactions involving over 5,700 policies totaling over $1 billion in face value. We believe our experience, infrastructure and intellectual capital gives us a unique market position and will enable us to maintain sustainable growth within the life settlement market.
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> We match life settlors with purchasers. We act as agent for settlement purchasers, for whom we identify and qualify policies. We locate potential life settlors through a network of brokers, insurance, financial and estate planning professionals, through personal referrals and through Internet and print media advertising.
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> *   *   *
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> Unlike some of our competitors, which may have more restrictive purchasing parameters or a single provider of investment capital, we have developed markets for all types of life expectancies in order to accommodate the investment goals of our clients as well as the individual circumstances of the policies presented to us. We believe this diversified capital business model makes us more competitive in the market and provides us with greater flexibility. We also believe that this model provides a stronger platform for our sustainable growth as a company. Markets are segmented by length of life expectancy and policy face value. The amount of competition in these markets varies according to the demand for such policies.

25. The Form 10-K also discussed the Company's revenues and demand for its services:

> *Revenues* - Revenues increased by $42,813,932, or 144% from $29,795,323 in fiscal 2007 to $72,609,255 in fiscal 2008. This increase was due primarily to a 174% increase in our total business volume as measured by the face value of all policy settlements transacted through us and a 164% increase in the average revenue per settlement from $135,433 in fiscal 2007 to $356,891 in fiscal 2008. The number of settlements we transacted in fiscal 2008 decreased by 9% from last year continuing a trend toward fewer transactions, but with larger face amounts. Revenues in fiscal 2007 increased by $9,711,670 or 48% from $20,083,653 in

fiscal 2006 to $29,795,323 in fiscal 2007. This increase was also a result of the increase in policy face amounts and in average revenue per settlement.

During the periods, demand for our services remained strong and the number of policies presented to us and meeting our purchasing qualifications grew. Growth in demand was especially strong for policies with higher face values among both institutional and retail clients, and we anticipate this demand trend to continue for the foreseeable future. … With our multi-client business model, we believe we can serve the demand for all our current and future clients. We believe this business model will permit us to achieve sustainable growth for the foreseeable future, without the risks associated with a single or limited number of clients.

We believe the increasing demand for our services results from several factors, one of which is an investment trend toward diversifying investment portfolios and avoiding economically sensitive investments. Returns on life settlements are linked to the lives of the insureds. As such, settlements function independently from, and are not correlated to, traditional equity and debt markets and commodity investments. We benefit from the investment community searching for returns higher than what is currently available in the traditional marketplace.

*   *   *

The following table shows the number of life settlement contracts we have transacted, the aggregate face values and purchase prices of those contracts, and the revenues we derived, for our last three fiscal years:

	2006	**2007**	**2008**
Number of settlements	259	220	200
Face value of policies	$87,275,000	$151,397,000	$415,293,000
Average revenue per settlement	$77,543	$135,433	$356,891
Total net revenues derived (1)	$8,485,000	$12,231.000	$36,823,000

(1) The revenues derived are exclusive of brokerage and referral fees.

26. On September 18, 2008, the Company issued a press release entitled "Life Partners to Post Record Earnings." Therein, defendant Pardo stated:

Investors today are looking for asset-based investments which are not correlated to the financial markets or other indices. Our business model deals exclusively with assets that have inherent value and are not reliant on market performance. Because life settlements are not correlated to the markets, our revenues and earnings are not correlated either. Additionally, we do not rely on credit to grow our business, so the current tight credit market has had no adverse effect on us.

27. On October 17, 2008, Life Partners held an earnings conference call with investors and financial analysts. During this call, defendant Pardo stated:

> SCOTT PEDEN: Brian, we have now reported out on our second quarter of our fiscal 2009 as of August 31 as well as our first six months of operation. How generally do you see the year shaping up?
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> BRIAN PARDO: Obviously, Scott, as -- and audience -- as all of you can tell, we've increased significantly on almost every sector both in income, earnings, balance sheet. Any way that you can look at the financial operations of the Company, it's all been up.
>
> And I think that one of the interesting or most interesting features of this is that, as most of you know if not all of you know, we've been constantly telling our clients, our now 21,000 investor clients, as well as all of our shareholders, that Life Partners and the product, life settlements, are immune from any potential downturn in the market and from any reason that we can think of. And that would be the outturn in the markets generally, currency problems, geopolitical problems, price of oil -- you name it and all of those markets may be affected or some may be affected.
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> But in all cases none of them affect life settlements. So we see the [footing] for life settlements as being based or this aspect of life settlements to be the basis of our clients for making the decisions to purchase life settlements and also to own stock. Obviously over the last several weeks, we have had this tremendous upheaval in the market.
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> So we -- I think that we said that we didn't expect that we were going to have such a demonstrative way of going about proving what we've been saying all along. And that is actually what we said has come about and we didn't realize that it had. But none of our clients -- and roughly 77,000 transactions that we've done for roughly 21,000 clients -- not a single client's investment has been altered in any way, lost a single penny, or have been affected adversely in any way whatsoever.
>
> So life settlements have lived up to what we said and what we expect them to do [in that] they truly are immune. Most people that have looked at us from a point of view of just analyzing the Company, analyzing the stock or perhaps taking an interest in buying the stock, or taking an interest in being a client in this sense of investing in the policies have taken a pretty close look at Life Partners. And I've seen this coming.
>
> So I expect that the results that we've seen happen just here within the last couple of weeks -- and so that has increased the amount and number of people that are interested in and affect our investing in life settlements with the realization that it really will protect their funds, at least that aspect of their portfolios.

*   *   *

> BRIAN PARDO: Obviously, the growth in lifestyle and the market has a synergistic affect on our stock. And we think that one of those reasons is that investors can become involved with Life Partners in several -- well, a few ways. They can be a buyer of our product and that is a client then of the companies and means life settlements is what they were intended for and that is, a port in a storm -- literally, a place to invest money that is reliable. And as we've just said, immune from any of the other industries that are affected by the market conditions.
>
> And of course to the very same reasons they can also take advantage of buying our stock. I am, of course, a big believer in our stock. I own enough of it. But I think besides being funded in a very, very solid company with a very solid future, strong balance sheet for our size company and a strong earnings history of revenues and earnings, that buying our stock is a -- would be a natural conclusion as well as buying our product.

28. During the October 17, 2008 conference call, the defendants also solicited and responded to questions from financial analysts and investors:

> ANALYST: I wanted to get to the topic of your -- I guess you are aware that 21st Services had lengthened life expectancy. So I'm curious to see your opinion on how this would affect Life Partners. I know that National Financial Partners recently said it would negatively impact the pricing of life settlements.
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> BRIAN PARDO: Well let me ask Scott to address that. But first let me say, we do not agree with that statement at all. If you are -- unless you've locked your funding, your underwriting into that one company -- but I don't know of anybody that would be that foolish -- but if they would, then, of course it could be detrimental leaving stuff.
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> SCOTT PEDEN: Yes. I think that the issue that 21st has, has more to do with other companies. I don't seek it affecting Life Partners at all. In fact, I think that it probably will help us because in instances where there were other companies that were locked in, sometimes it sort of skewed the market.
>
> So I think that it's overall good for the general market and allows us to be even more competitive as far as that goes. But you want to make sure that every life expectancy underwriter had their own methodology and that sort of thing. And ultimately what we used, more than the life expectancy, is the discount. That is how we are able to return the kind of returns to our clients that they expect. It's not so much the precision of the life expectancy as it is the discount at which we purchase.

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ANALYST: Next comment is, you talked about keeping leverage low and I think that's great, given the environment.

But, would it be purchasing your own products being kind of like leveraging up, as well? I mean if one of the things that we've seen in the past six months is that a lot of these investment banks have gotten really beaten up, drinking their own Kool-Aid, would you consider purchasing your own products to be leveraging up in the nonclassical definition?

BRIAN PARDO: No. I don't consider it to be leveraging up. Leveraging up because first of all we are not drinking that Kool-Aid. And, secondly, the product itself is not a product that is created by Life Partners. They are life insurance policies.

And so the average age of a policy that we buy is from someone between the ages of 78 and 82. And so we are very conservative in our underwriting. But it's just taking a small position, very small position relative to the other investors in a product.

It's just a way for us to historically use our capital in a way it's going to return higher rate on those funds and anything else that we can (inaudible) at leasing.

ANALYST: Okay. Great. I guess last comment it really scares me when people say that they are truly immune to what is going on with what's happening in the world today. And I just encourage you guys to just stick with what you are doing. You are doing great, but maybe not say that you are truly immune. You did say that, but otherwise great job.

BRIAN PARDO: Well, we are truly immune, but I can assure you we will stick to what we do. So you are right about that.

* * *

ANALYST: I just had another sort of accounting question. I was looking at your premium advances for the quarter which were up a bit, and I read that in the Q that said that the settlements -- most of which were made before 1990 -- allegedly lacked sufficient disclosure about the purchasers' obligation to pay premiums in order to maintain the acquired policy.

So these are older policies that you guys are having to make the advances on? And I was just curious. If a policy has been outstanding for more than 10 years, what kind of return does that suggest to the investor?

SCOTT PEDEN: Obviously, now, the kinds of policies we are talking about in that time frame are completely different from the kind of policies that we are doing right now. Life settlements typically are on an individual who -- as Mr. Pardo said earlier -- is between 78 and 80 to years old. The average face value right now is about $3.8 million or so.

BRIAN PARDO: Yes. But it would still be -- excuse me for interrupting, Scott. It would still be -- the way those are underwritten -- would be 4 or 5% return. And so that's about what we're looking at, and we will -- with regard to that, you know, as we carry it on our balance sheet under other items, we don't actually put it on our balance sheet.

ANALYST: Right. It's fully reserved against. I see that.

(multiple speakers)

BRIAN PARDO: That's right but we do get that money back. And so it's kind of like Christmas, when we get it paid back. It is merely an issue that had to do with the policies that were -- did have longer life expectancies.

And we thought like there was -- a disclosure was adequate, but the Attorney General felt like it wasn't. And so rather than argue about it because we are going to get the money back anyway, we said, "Okay, we will advance it." And it's paid and we will get the money paid back. Basically it's not really at this point a material issue anymore for the Company.

SCOTT PEDEN: So because of the discount on there, certainly the returns are still positive even with (multiple speakers). Very positive, yes.

ANALYST: You are saying 4 to 5%. What is a kind of -- what kind of return are you suggesting or indicating to potential investors these days? What should they expect?

BRIAN PARDO: We like to tell our clients to be looking for a low double-digit return.

ANALYST: Okay. 11, 12%? That kind of return?

BRIAN PARDO: Yes. And I think if they are expecting that, they will not be disappointed.

SCOTT PEDEN: The other aspect of it is it is completely not correlated and especially in today's market. That's almost more valuable than the return.

ANALYST: Right.

BRIAN PARDO: Yes. And -- but, anyway, ***we want our marketing people to be very conservative in how they state returns***. And we have not had any since 19 -- since 2000, especially just to give -- just to pick a date out of the (inaudible). We got little or no complaints concerning returns.

ANALYST: Okay. One other question. I noticed the way you presented this premium advances on the income statement changed this quarter versus last. Last quarter, it was shown in other income and expenses sort of below the line. This quarter you moved it up into operating income.

Can you explain that change in presentation?

DAVID MARTIN: That's basically done for a couple of reasons. One is premium advances is becoming more and more a part of our daily operations. And it's not something outside like it was before.

ANALYST: You mean, you are having to do more and more of these names?

BRIAN PARDO: Yes but what he's referring to is that there are a lot of premiums out on policies that we want to buy, that we routinely go in and pay the premiums off so we get the premium right back at the closure. That was becoming more of a standard way of doing business.

* * *

UNIDENTIFIED SPEAKER: But the question I asked earlier, I just wanted to get back to that. Obviously you didn't agreed with I guess it was National Financial statement about the lengthening of the life expectancies. I know I looked in the K.

It says you used both in-house and outside experts. I was just curious. The outside experts because I think there's only a handful, which ones in particular if you could disclose that you might actually use and what percentage that is?

BRIAN PARDO: No, we can't get into that level of detail with how we do business because it's proprietary. But all we're saying if it was misunderstood, possibly, is that the changes that were implemented by 21st Services had no effect at all on anything involving LPHI.

UNIDENTIFIED SPEAKER: Okay. So it is not affecting business as usual. Before and after, it seems to be the same then?

BRIAN PARDO: That's correct.

(Emphasis added)

29. On December 15, 2008, the Company issued a press release entitled "Life Partners to Post Record Earnings." Therein, defendant Pardo stated:

There is no question that investors are more wary now than they have been in a generation. That's why the demand for our services continues to grow. Investors are looking for asset-based investments which are not correlated to the financial markets. Life Partners deals exclusively with assets that have an inherent value and do not rely on future market performance to realize gains. During this time of extreme market volatility, our clients' investments in life settlements have

> remained completely unaffected and that is the kind of diversification that investors want in today's market.

30. On January 13, 2009, Life Partners held an earnings conference call with investors and financial analysts. During this call, defendants Pardo and Peden stated:

> BRIAN PARDO: One of the things that we are doing with the net after-tax income, which is on an average of $6.8 million to $7.2 million a quarter of free cash flow after-tax, is we are investing it in the product itself. In other words, we are investing it in life settlements.
>
> To be sure that we don't get accused of cherry picking or anything like that, which for people who really understood the business they would realize that it would be almost impossible at the rate that policies are underwritten coming through the system to sit back and say there is an extra specially good one or something like that. It would be practically impossible to do that. But just to make sure that there is not a perception of impropriety, we have been investing more or less right along with our investors. So we will take a piece of this one and a piece of that one and a piece of this one.
>
> * * *
>
> BRIAN PARDO: So our services and what we do are becoming very apparent to those people and they are flocking, literally, to us. And the same time investors are flocking to this because they see that this is truly -- is true diversification. We have never recommended that anybody puts all of their money in any one thing, but we are certainly saying that you should have a very strong component of your investment portfolio in life settlements.
>
> Done properly and done the way that Life Partners does them and with the history that we have, obviously, we think that they ought to be doing it with us. And currently a lot of them are.
>
> * * *
>
> SCOTT PEDEN: Of course, LPHI is the only publicly traded life settlement provider, so it seems that investors could benefit from the enormous interest that you can talk about in life settlements by becoming one of our clients or by buying our stock. They could do it either way.
>
> BRIAN PARDO: Yes, and actually I think we are seeing that. We are seeing a lot of people who are selling us their policies and then once they actually see that transaction go full cycle I think they are good candidates. We have noticed where -- their named accounts at least, anyway we are being told -- but they are also turning around and becoming shareholders as well. So it's nice to see them have that kind of confidence in the Company.

But of course firsthand they are seeing what we are doing and the good that it's doing. So it's a great opportunity for us and for our marketing people to be able to be out there, particularly in this climate, this economic climate and being something that is genuinely good for the people that we are helping by buying their policies. Also, the elevated level of returns that we are delivering to our investor clients.

* * *

BRIAN PARDO: So first of all, when somebody decides they are going to invest money with us. In other words, to buy a policy. They do not write a check to Life Partners. They write a check to an independent escrow agent and an account is set up there. We act as an instruction-driven agent to pick out. We are kind of the Coldwell Banker of the insurance world.

And so our job is to find policies, source policies that are qualified, underwrite them, make sure that they meet the underwriting and the investment criteria that the clients are looking for and that we know they are looking for to produce the kinds of returns that we are wanting, double-digit returns, and in a reasonable timeframe -- four, five, six years. And so we don't collect a dime of money. It stays in the escrow account until a policy or a piece of a policy has been selected and chosen by the client and the client authorizes us through a written document to make that buy on their behalf. Then it's actually the escrow company that ends up taking the money, paying the owner of the policy, paying the fees -- now that is when we get paid only on the event of the occurrence of the transaction.

We don't get paid beforehand and we don't get paid afterwards. We don't get paid success fees. We don't get paid percentages of -- if we run over certain boundaries. We don't get paid anything except what we are paid to do the transaction.

* * *

BRIAN PARDO: ***We are very transparent. We went public to become transparent.*** Obviously, we didn't anticipate Enron and therefore we didn't anticipate Sarbanes-Oxley and we didn't anticipate this ridiculous turn of events in mortgages. I mean who would have thought that you could buy a house without a job, without credit, without money. But somehow they have managed to work that out so -- anyway we didn't anticipate any of that.

But what we did anticipate was that this had to be an absolutely sound investment with no chance of funds going south because of some event like this or extraordinary as it might be, some risk that we didn't anticipate or alternatively we get our hands into somebody's pocket. That we did make sure that was not going to happen. So our investors see that.

* * *

> ANALYST: You made some comments about the policy sellers and how this credit crisis has accelerated their need for money. Could you also make some comments about the buyers and if this credit crisis has had any influence on the buyers? And also about the pricing of policies, has this credit crisis had any influence as to the seller's reduction of prices or the buyer's elevation of prices, or anything that you can really put forth to see what has changed since we are in a different environment today than we were six months ago or a year ago?
>
> BRIAN PARDO: … Once they had a chance to sit down and sort things out they realized of course that you are not one to make any money of any magnitude with the bank or in treasuries or anything like that. So we have seen a larger number of buyers coming to us because of the safety of the transaction and also buyers who were already in the transaction coming in with more.
>
> With regard to the sellers, it is true that there is a little more margin and the returns are somewhat better, as you might expect, because there is just more supply. But we are loathe to take a lot of advantage of that because we don't want to end up on the Wall Street Journal front page saying that we are taking advantage of a bunch of elderly citizens on our pricing. And going back and looking at what we were buying policies for last year and saying they are now nicking them 10% or something like that just because they can.
>
> So while there has been some improvement in margins, we have pretty much kept the bar about the same because the returns have been very, very good. Nobody is complaining about that strategy and I think that as we explain that to our clients, they basically agree with that. (Emphasis added)

31. On May 29, 2009, the Company issued a press release entitled "Life Partners Reports Record Earnings." Therein, the Company stated, in relevant part:

> Life Partners Holdings, Inc. (Nasdaq GS: LPHI), parent company of Life Partners, Inc., today reported net earnings of $27.2 million or $1.83 per split-adjusted share for the fiscal year ended February 28, 2009 compared to $18.8 million or $1.25 per split-adjusted share for a 46% increase over the prior year. Life Partners also reported revenues of $103.6 million for the year, a 43% increase over the $72.6 million reported for last year. All figures are adjusted for the 5-for-4 forward stock split which occurred on February 16, 2009.
>
> For the quarter ended February 28, 2009, the company reported earnings of $7.0 million on revenues of $26.3 million or $.48 per split-adjusted share compared with $4.5 million on revenues of $18.1 million or $.30 per split-adjusted share for the same period last year.
>
> Among the key financial results reported today are:
>
> FISCAL YEAR

	FY 2009	FY 2008
Revenues	$103.6 million	$72.6 million
Income from Operations	$40.2 million	$27.2 million
Pre-tax Income	$41.9 million	$28.7 million
Pre-tax Income	$27.2 million	$18.8 million
Earnings Per Share (basic and diluted)	$1.83 per share	$1.25 per share

*   *   *

> Brian Pardo, Chief Executive Officer of Life Partners Holdings, Inc., said, "We are extremely pleased with our results for this year. At a time when many companies are facing severe downturns in earnings, we are proudly growing our business and continuing to deliver value to our shareholders and our clients. The demand for life settlements and our services continues to grow and our success is proven by these financial results."

32. Also on May 29, 2009, Life Partners filed its fiscal 2009 Annual Report with the SEC on Form 10-K. The Company's Form 10-K was signed by defendants Pardo, Martin and Peden, among others, and reaffirmed the Company's financial results announced that same day. Additionally, the Form 10-K stated:

> We are a specialty financial services company, providing purchasing services for life settlements to our client base. We facilitate these transactions by identifying, examining, and purchasing the policies as agent for the purchasers. To meet market demand and maximize our value to our clients, we have made significant investment in proprietary software and processes that enable us to facilitate a higher volume of transactions while maintaining our quality controls. Since our inception, we have facilitated over 84,000 purchaser transactions involving over 6,000 policies totaling over $1.8 billion in face value. We believe our experience, infrastructure and intellectual capital gives us a unique market position and will enable us to maintain sustainable growth within the life settlement market.
>
> We act as a purchasing agent for life settlement purchasers. In performing these services, we identify, qualify and purchase policies on behalf of our clients which match their buying parameters and return expectations. Because we must work within these parameters, we must make offers which are competitive from the seller's point of view, but still fit within the buying parameters of our clients. This success-based compensation formula insures that we bring value to both parties to the transaction and that both buyer and seller are satisfied. We locate potential policy owners through a network of brokers, insurance, financial

> and estate planning professionals, through personal referrals and through Internet and print media advertising.
>
> * * *
>
> Unlike some of our competitors, which may have more restrictive purchasing parameters or a single provider of investment capital, we have developed markets for all types of life expectancies in order to accommodate the investment goals of our clients as well as the individual circumstances of the policies presented to us. We believe this diversified capital business model makes us more competitive in the market and provides us with greater flexibility. We also believe that this model provides a stronger platform for our sustainable growth as a company. Markets are segmented by length of life expectancy and policy face value. The amount of competition in these markets varies according to the demand for such policies.

33. The Form 10-K also discussed the Company's revenues and demand for its services:

> *Revenues* - Revenues increased by $31,005,185, or 43% from $72,609,255 in fiscal 2008 to $103,614,440 in fiscal 2009. This increase was due primarily to a 67% increase in our total business volume as measured by the face value of all policy settlements transacted through us and a 48% increase in the average revenue per settlement from $356,891 in fiscal 2008 to $528,645 in fiscal 2009. The number of settlements we transacted in fiscal 2009 decreased by 2% from last year continuing a trend toward fewer transactions, but with larger face amounts. Revenues in fiscal 2008 increased by $42,813,932 or 144% from $29,795,323 in fiscal 2007 to $72,609,255. This increase was also a result of the increase in policy face amounts and in average revenue per settlement.
>
> During the periods, demand for our services remained strong and the number of policies presented to us and meeting our purchasing qualifications remained constant. Growth in demand was especially strong for policies with higher face values among both institutional and retail clients, and we anticipate this demand trend to continue for the foreseeable future. … With our multi-client business model, we believe we can serve the demand for all our current and future clients. We believe this business model will permit us to achieve sustainable growth for the foreseeable future, without the risks associated with a single or limited number of clients.
>
> We believe the increasing demand for our services results from several factors, one of which is an investment trend toward diversifying investment portfolios and avoiding economically sensitive investments. Returns on life settlements are linked to the lives of the insureds. As such, settlements function independently from, and are not correlated to, traditional equity and debt markets and

commodity investments. We benefit from the investment community searching for returns higher than what is currently available in the traditional marketplace.

* * *

The following table shows the number of life settlement contracts we have transacted, the aggregate face values and purchase prices of those contracts, and the revenues we derived, for our last three fiscal years:

	2007	2008	2009
Number of settlements	220	200	196
Face value of policies	$151,397,000	$415,293,000	$693,715,000
Average revenue per settlement	$135,433	$356,891	$528,645
Total net revenues derived [(1)]	$12,231,000	$36,823,000	$54,421,000

(1) The revenues derived are exclusive of brokerage and referral fees.

34. Additionally, the Form 10-K discussed the Company's own investments in life settlement policies:

From time to time, we purchase interests in policies to hold for investment purposes. … The balance of Investment in Life Insurance Policies is routinely tested for impairment and valued accordingly. Impairment for the year ended February 28, 2009 was $151,810. There was no impairment recorded for the year ended February 29, 2008. The balance of Investment in Policies increased significantly during fiscal 2009, the majority of which resulted from a settlement of a case with the State of Colorado. The Securities Commissioner for the State of Colorado filed an action alleging violations of the Colorado Securities Act in connection with certain life settlements transacted through our subsidiary, Life Partners, Inc. This action was settled with the agreement that LPI would offer to purchase the interests of certain Colorado clients. Under the terms of the settlement, Life Partners, Inc. agreed to offer to purchase the life settlements from the Colorado investors alleged in the complaint, and all purchasers that accepted the purchase offer received additional compensation for the purchase equal to statutory interest. As of February 28, 2009, we had purchased interests in 260 policies and paid $6,318,665, including $1,286,833 of statutory interest related to the Colorado settlement. After February 28, 2009, we purchased interests in an additional 264 policies related to the Colorado settlement and paid $6,441,625, including $1,413,908 of statutory interest. LPI has completed this purchase offer. The total amount paid to the purchasers who accepted this offer totaled interests in 524 policies and $12,760,290, of which $2,700,741 represented the payment of statutory interest.

The table below describes the Investment in Policies account at February 28, 2009. The carrying value noted includes $1,286,833 of statutory interest.

Remaining Life Expectancy (in years)	Number of Life Settlement Contracts	Carrying Value	Face Value
0-1	331	$2,647,822	$5,103,241
1-2	83	2,001,137	2,856,277
2-3	94	2,584,926	4,457,263
3-4	51	1,228,156	2,086,260
4-5	13	416,674	1,078,196
Thereafter	-	-	-
Total	572	$8,878,715	$15,581,237

Remaining life expectancy for year 0-1 includes all policies that have exceeded their original life expectancy plus those policies that are scheduled to reach their original life expectancy during the next 12 months. Remaining life expectancy is based on original life expectancy estimates and is not an indication of expected maturity. Actual maturity dates in any category may vary significantly (either earlier or later) from the remaining life expectancies reported above.

35. The Company's Form 10-K also contained updated Sarbanes-Oxley required certifications, which stated:

I, [Brian D. Pardo / David M. Martin], certify that:

1. I have reviewed this annual report on Form 10-K of Life Partners Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; and

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

For the Annual Report of Life Partners Holdings, Inc. (the "Company") on Form 10-K for the period ending February 28, 2009 (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

36. On July 14, 2009, Life Partners held an earnings conference call with investors and financial analysts. During the conference call, the defendants solicited and responded to questions, and stated:

> ANALYST: Just kind of given what you've talked about and the -- sort of the collapse in the credit markets or in the banking sector, and given all the policies that are, I guess, newly available, what would you say has happened to the sort of expected [internal rate of return ("IRR")] to investors? Has that changed at all in the last -- I don't know, 12 or 24 months? And if so, what has it done?
>
> SCOTT PEDEN: What's important to understand is that when we are pricing these policies, we're pricing all of them to a targeted IRR. And that has remained quite steady for some time. That's one of the reasons that people are intrigued and very, very interested in life settlements is because we're able to get those to target like that. And so it's not as -- it's not market-sensitive, essentially.
>
> We have not seen those -- any kind of economic pressures collapsing those margins at all. We've been able to hold those. And in some respects, we've been able -- in some instances, we've been able to increase that target IRR. But again, that's because it is completely non-correlated to other kinds of financial markets, which makes it an excellent kind of alternative investment.
>
> But no, I don't see those collapsing; certainly not in the foreseeable future.
>
> ***BRIAN PARDO: But we are being careful to be very fair with the sellers of the policies, because we don't want to end up on the left-hand page of the -- front page of the Wall Street Journal.***
>
> ***SCOTT PEDEN: Well, and it's a competitive business. We always have to come out with a commercially competitive offer.***
>
> ***BRIAN PARDO: Yes, but -- that's right. And so it's a matter of balancing fairness to everybody. And it's just a model that's developed over -- been developed, refined, further refined, further developed -- we're going on 19 years now.***
>
> And as many people say in the meetings that we have here -- and many of you probably have been here to one or other of these meetings -- there's, in essence, a perfect storm out there, from the point of view that this product being ready, and

> our Company being ready with its IT capabilities, which leads to basically its underwriting capabilities, to underwrite a huge amount of profit that's coming through the front door.
>
> That thrust, to be able to look at and determine whether or not it's something that we want to buy for our investors. And if so, at what price and get out there and make an offer and get it done. And so it's all of that more or less coming together that's got us where we are. (Emphasis added)

37. On September 16, 2009, the Company issued a press release entitled "Life Partners Issues Preliminary Q2 Earnings." Therein, defendant Pardo stated:

> As recent news reports and these numbers show, we continue to see substantial growth in the life settlement industry and in Life Partners specifically. By concentrating on bringing value to all parties in our life settlement transactions, we ultimately bring value to our shareholders. Our focus on bringing value is what made us the number one fastest-growing small public company in America according to Fortune Small Business magazine.

38. On January 11, 2010, the Company issued a press release entitled "Life Partners Reports Third Fiscal Quarter and Nine Months Results." Therein, defendant Pardo stated:

> This has been another record quarter for us, and we are very pleased with our continued growth in revenues and net income. As interest in alternative investments continues to increase, investors, policymakers and institutions all continue to turn to Life Partners because of our experience and leadership status as the only publicly traded life settlement provider.

39. On May 12, 2010, Life Partners filed its fiscal 2010 Annual Report with the SEC on Form 10-K. The Company's Form 10-K was signed by defendants Pardo, Martin and Peden, among others, and reported revenues of $113 million, income from operations of $47.4 million, net income of $29.4 million, and earnings per share of $1.98 for fiscal year 2010 (ended February 28, 2010). The Form 10-K also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶ 35, *supra*. Additionally, the Form 10-K stated:

> We are a specialty financial services company, providing purchasing services for life settlements to our client base. We facilitate these transactions by identifying, examining, and purchasing the policies as agent for the purchasers. To meet

market demand and maximize our value to our clients, we have made significant investments in proprietary software and processes that enable us to facilitate a higher volume of transactions while maintaining our quality controls. Since our inception, we have facilitated over 107,000 purchaser transactions involving over 6,200 policies totaling over $2.3 billion in face value. We believe our experience, infrastructure and intellectual capital provide us a unique market position and will enable us to maintain sustainable growth within the life settlement market.

We act as a purchasing agent for life settlement purchasers. In performing these services, we identify, qualify and purchase policies on behalf of our clients that match their buying parameters and return expectations. Because we are obliged to work within these parameters, we must make offers that are competitive from the seller's point of view, but still fit within the buying parameters of our clients. This success-based compensation formula ensures that we bring value to both parties to the transaction and that both purchaser and seller are satisfied. We locate potential policy owners through a network of life settlement brokers and, to a lesser extent, through insurance, financial and estate planning professionals, through personal referrals and through Internet and print media advertising.

40. The Form 10-K also discussed the Company's revenues and demand for its services:

Revenues – Revenues increased by $9,381,843, or 9.1%, from $103,614,440 in fiscal 2009 to $112,996,283 in fiscal 2010. This increase was due primarily to the increased number of settlements, from 196 in fiscal 2009 to 201 in fiscal 2010. There was also a 6.3% increase in the average revenue per settlement, increasing from $528,645 in fiscal 2009 to $562,171 in fiscal 2010, as we continued our trend of brokering larger face value policies at higher margins. Our revenues increased at a slower rate than in previous years as institutional sales declined, leaving retail sales as our primary source of revenue. Revenues increased $31,005,185, or 42.7%, from $72,609,255 in fiscal 2008 to $103,614,440 in fiscal 2009. While the number of settlements we transacted in fiscal 2009 decreased by 2.0% from fiscal 2008, from 200 to 196, our average revenue per settlement increased 45.6%, from $363,046 in fiscal 2008 to $528,645 in fiscal 2009. The increase in revenue per settlement resulted from brokering larger face value policies.

During the periods, despite the global economic recession, demand for our services remained strong and the number of policies presented to us and meeting our purchasing qualifications remained constant. We continue to see a supply of policies with higher face values that meet our purchasing parameters and we anticipate this supply trend to continue for the foreseeable future. … We believe this business model will permit us to achieve sustainable growth for the foreseeable future, without the risks associated with a single or limited number of clients.

We believe the increasing demand for our services results from several factors, one of which is an investment trend toward diversifying investment portfolios and avoiding economically sensitive investments. Returns on life settlements are linked to the lives of the insureds. As such, settlements function independently from, and are not correlated to, traditional equity and debt markets and commodity investments. We benefit from the investment community searching for returns higher than what is currently available in the traditional marketplace. Although we serve both domestic and foreign purchasers, domestic purchasers accounted for approximately 99% of our business in fiscal 2010. In fiscal years 2009 and 2008, the ratio was approximately 80% domestic and 20% foreign. This decline is due to a large foreign institution reducing its purchases of life settlements.

* * *

The following table shows the number of life settlement contracts (policies) we have transacted, the aggregate face values and purchase prices of those contracts, and the revenues we derived, for our last three fiscal years:

	Fiscal 2010	**Fiscal 2009**	**Fiscal 2008**
Number of settlements (policies)	201	196	200
Face value of policies	$590,189,000	$693,715,000	$415,293,000
Average revenue per settlement	$562,171	$528,645	$363,046
Total net revenues derived (1)	$62,019,160	$54,420,577	$36,822,734

(1) The revenues derived are exclusive of brokerage and referral fees.

41. Additionally, the Form 10-K discussed the Company's own investments in life settlement policies:

From time to time, we purchase interests in policies to hold for investment purposes. ASC 325-30, *Investments in Insurance Contracts*, provides that a purchaser may elect to account for its investments in life settlement contracts based on the initial investment at the purchase price plus all initial direct costs. Continuing costs (e.g., policy premiums, statutory interest, and direct external costs, if any) to keep the policy in force are capitalized.

The table below describes the Investment in Policies account at February 28, 2010.

Remaining Life Expectancy (in years)	**Number of Life Settlement Contracts**	**Carrying Value**	**Face Value**
0-1	186	$4,473,238	$7,181,959
1-2	389	4,360,930	6,810,132

2-3	176	2,158,459	3,903,265
3-4	272	4,909,727	7,720,555
4-5	33	557,999	972,879
Thereafter	1	-	50,000
Total	1,057	$16,460,353	$26,638,790

> Remaining life expectancy for year 0-1 includes all policies that have exceeded their original life expectancy plus those policies that are scheduled to reach their original life expectancy during the next 12 months. Remaining life expectancy is based on original life expectancy estimates and is not an indication of expected maturity. Actual maturity dates in any category may vary significantly (either earlier or later) from the remaining life expectancies reported above.

42. On May 13, 2010, the Company issued a press release entitled "Life Partners Holdings Posts Record Earnings; Company Exceeds Earnings Guidance." Therein, the Company stated, in relevant part:

> Life Partners Holdings, Inc. (NASDAQ GS: LPHI), parent company of Life Partners, Inc., posted higher than expected earnings for its fiscal year ended February 28, 2010. The company reported a 9% increase in revenues and a 7% increase in net income for its 2010 fiscal year over the same period of the prior year. For the fiscal year, Life Partners reported revenues of $113 million compared to $104 million for its prior fiscal year. Net income for the current fiscal year was $29 million, or $1.98 per share compared with net income of $27.2 million or $1.83 per split adjusted share during the previous fiscal year.
>
> In addition, the company reported the resolution of all material litigation in which it was involved as well as a non-recurring, charge in the fourth quarter resulting from recognition of the decrease in market value of publicly traded securities held by the company.
>
> LPHI Chairman Brian Pardo commented, "We received an unqualified opinion on Life Partners' fiscal 2010 financial results, as well on the effectiveness of Life Partners' internal control over financial reporting from Ernst & Young LLP, our independent registered public accountants. In a year in which our industry contracted, we continued to grow and capture greater market share. There is no doubt that we are well positioned to focus on moving forward into a new era of growth for the company."
>
> **Key Elements Reported:**
>
> **FISCAL YEAR**

	Ended 2-28-2010	**Ended 2-28-2009**
Revenues	$113 million	$104 million
Income from Operations	$47 million	$41 million
Pre-tax Income	$48 million	$42 million
Net Income	$29 million	$27 million
Earnings Per Share	$1.98 per share	$1.83 per share

43. On June 24, 2010, the Company issued a press release entitled "Life Partners to Report Quarterly Results." Therein, defendant Pardo stated:

> In the midst of continued turmoil in the financial markets, we are proud to post another outstanding quarter and expect to continue to grow our revenues and net income. Individual and institutional investors all over the world are realizing the value of life settlements and are turning to us because of our experience, our infrastructure, and our leadership in the life settlement industry.

44. On July 9, 2010, Life Partners filed its Quarterly Report with the SEC on Form 10-Q. The Company's Form 10-Q was signed by Defendants Pardo and Marin, and reported revenues of $26.7 million, income from operations of $11.6 million, net income of $7.6 million, and earnings per share of $0.51 for the first quarter of fiscal 2010 (ended May 31, 2010). The Form 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶ 35, *supra*.

45. On September 22, 2010, the Company issued a press release entitled "Life Partners Issues Preliminary 2Q Earnings." Therein, the Company stated, in relevant part:

> Life Partners Holdings, Inc. (NASDAQ GS: LPHI), parent company of Life Partners, Inc., today announced its preliminary financial results for its second fiscal quarter and first half ended August 31, 2010. Life Partners expects to report second quarter earnings of $0.54 per share, a 5.9% increase compared with earnings of $0.51 per share last year. Income from operations is expected to increase 13% to $12.7 million, up from $11.2 million for the same period last year. For the six months ended August 31, 2010, the company expects to report earnings of $1.05 per share, a 4.0% increase compared with $1.01 per share for the six months ended August 31, 2009.

> For the quarter ended August 31, 2010, Life Partners expects to report $30.3 million in revenues, a 4.1% increase over the $29.1 million reported for the same period last year. For the six months ended August 31, 2010, the company expects to report revenues of $57.0 million, a 0.8% increase over the $56.5 million reported for the same period last year.
>
> Among the key financial results reported are:
>
> SECOND QUARTER

	2010	2009
Revenues	$30.3 million	$29.1 million
Income from Operations	$12.7 million	$11.2 million
Pre-tax Income	$12.6 million	$11.8 million
Net Income	$8.1 million	$7.6 million
Earnings Per Share (basic and diluted)	$0.54 per share	$0.51 per share

* * *

> Brian Pardo, Chief Executive Officer of Life Partners Holdings, Inc., said, "Despite an uncertain economy and a slowdown in the life settlement industry, our business has continued to increase with steady and sustainable growth. We expect this trend to continue throughout the remainder of our fiscal year."

46. On October 8, 2010, Life Partners filed its Quarterly Report with the SEC on Form 10-Q. The Form 10-Q was signed by Defendants Pardo and Martin, and reaffirmed the Company's financial results previously announced on September 22, 2010. The Form 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶ 35, *supra*.

47. On December 21, 2010, *The Wall Street Journal* published an article questioning the accuracy of the Company's life expectancy models.

48. Also on December 21, 2010, the Company issued a press in response to the *Wall Street Journal* article, dismissing the article as "misleading."

49. On January 10, 2011, the Company issued a press release entitled "Life Partners Reports Third Fiscal Quarter and Nine Months Results." Therein, the Company stated, in relevant part:

> Life Partners Holdings, Inc. (Nasdaq GS: LPHI) today announced a 15% decrease in net income, from $8.4 million or $0.57 per share for the three months ended November 30, 2009, to $7.1 million or $0.47 per share for the three months ended November 30, 2010. Third quarter revenues decreased in the current period by 16%, from $31.0 million to $26.2 million.
>
> For the nine months ended November 30, 2010, the company reported a 3% decrease in net income; $22.8 million or $1.53 per share compared to $23.5 million or $1.58 per share during the same period last year.
>
> The company's balance sheet remained strong with $28.6 million in cash on hand, a current ratio of 4 to 1 and a 15% increase in shareholders' equity.
>
> Brian Pardo, Chief Executive Officer, said, "While revenues for this quarter were somewhat lower than expected, our balance sheet grew stronger and investor interest in life settlements remains consistent. We believe that the volatility of the financial markets over the past few years underscores the importance of having a portion of investment capital in long-term, non-correlated assets like life settlements."

50. On January 10, 2011, Life Partners filed its Quarterly Report with the SEC on Form 10-Q. The Form 10-Q was signed by Defendants Pardo and Martin, and reaffirmed the Company's financial results announced that same day. The Company's Form 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶ 35, *supra*.

51. The statements contained in ¶¶ 21 – 46 and 48 – 50 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company had routinely used unrealistic life expectancy data that produced inaccurately short life expectancy reports, which were subsequently used to sell life settlement policies to investors; (2) that the Company had purposely concealed the historical rate in which individuals insured by life settlement policies sold by Life Partners had lived past the life expectancy rates previously

provided to investors, such that the Company's investors were unable to assess the accuracy or reliability of such data; (3) that by underestimating the life expectancy data to investors, the Company was able to charge substantially larger fees when brokering life settlement policies; (4) that the Company's revenues had been significantly increased through the employment of such business practices; (5) that, as a result, the Company's financial statements were false and misleading at all relevant times; (6) that such business practices, when they were discovered, would initiate an investigation by the federal authorities into the Company's business practices; (7) that the Company lacked adequate internal and financial controls; and (8) that, as a result of the foregoing, the Company's statements about its financial well-being and future business prospects were lacking in any reasonable basis when made.

The Truth Begins to Emerge

52. On January 20, 2011, *The Wall Street Journal* published an article reporting that the SEC was investigating Life Partners.

53. Also on January 20, 2011, the Company confirmed "that the SEC is conducting an investigation into the business of its operating subsidiary, Life Partners, Inc. The Company's confirmation follows press reports of the previously non-public investigation."

54. On this news, shares of the Company's stock declined $2.58 per share, or over 17 percent, to close on January 20, 2011 at $12.46 per share, on unusually heavy trading volume. The Company's stock continued to decline as additional news about Life Partners was subsequently reported.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

55. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Life Partners securities during

the Class Period (the "Class"). Excluded from the Class are defendants, directors and officers of Life Partners and their families and affiliates.

56. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. According to the Company's Form 10-Q filed with the SEC on January 10, 2011, Life Partners had over 14.9 million shares of stock outstanding, owned by thousands of persons.

57. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) Whether the Securities Exchange Act was violated by defendants;

(b) Whether defendants omitted and/or misrepresented material facts;

(c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the prices of Life Partners securities were artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

58. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

59. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

60. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

LOSS CAUSATION/ECONOMIC LOSS

61. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class. The price of Life Partners' securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses. As a result of their purchases of Life Partners securities during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

SCIENTER ALLEGATIONS

62. During the Class Period, the defendants had both the motive and opportunity to commit fraud. They also had actual knowledge of the misleading nature of the statements they made or acted in reckless disregard of the true information known to them at the time. In so doing, the defendants participated in a scheme to defraud and committed acts, practices and participated in a course of business that operated as a fraud or deceit on purchasers of Life Partners' securities during the Class Period.

Applicability of Presumption of Reliance:
<u>Fraud on the Market Doctrine</u>

63. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's securities traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

(e) Plaintiff and other members of the Class purchased Life Partners securities between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

64. At all relevant times, the market for Life Partners securities was efficient for the following reasons, among others: (a) as a regulated issuer, Life Partners filed periodic public reports with the SEC; and (b) Life Partners regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

NO SAFE HARBOR

65. Defendants' verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

66. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Life Partners who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

FIRST CLAIM
Violation of Section 10(b) of The Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

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

68. During the Class Period, Life Partners and the Individual 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 Life Partners securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, these defendants, and each of them, took the actions set forth herein.

69. Life Partners and the Individual Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) 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 Life Partners securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. These defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons.

SECOND CLAIM
Violation of Section 20(a) of
The Exchange Act the Individual Defendants

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

71. The Individual Defendants acted as controlling persons of Life Partners within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, 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, the Individual 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. The Individual 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.

72. In particular, each of the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

73. As set forth above, Life Partners and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of these defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

FOR THESE REASONS, 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 and equitable relief 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 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: February 2, 2011

Respectfully submitted,

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