

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF NORTH CAROLINA
WINSTON-SALEM DIVISION

No. 1:09-cv-00071

██████████ individually and on
Behalf of All Others Similarly Situated,

Plaintiff,

vs.

TRIAD GUARANTY INC., MARK K.
TONNESEN and KENNETH W. JONES,

Defendants.

) CLASS ACTION

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) **COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS**

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) DEMAND FOR JURY TRIAL

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Triad Guaranty Inc. (“Triad” or the “Company”) between October 26, 2006 and November 10, 2008, inclusive (the “Class Period”), against Triad and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (“1934 Act”).

2. Triad, through its subsidiary, Triad Guaranty Insurance Corporation, provides private mortgage insurance products to residential mortgage lenders and investors in the United States. The Company was founded in 1987 and is headquartered in Winston-Salem, North Carolina.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company’s business and financial results. As a result of defendants’ false statements, Triad stock traded at artificially inflated prices during the Class Period, reaching its Class Period high of \$58.45 per share in January 2007.

4. As the real estate and credit markets continued to soften in 2007, defendants repeatedly assured Triad investors that the Company had been very selective in its underwriting standards in the past and had maintained adequate loss reserves to weather the deteriorating real estate and credit markets. As late as the summer of 2007, as the housing and credit crisis deepened, defendants continued to play down and conceal Triad’s growing exposure to these problems. As a result, Triad’s stock continued to be artificially inflated due to defendants’ false statements.

5. Beginning in late August 2007 and continuing throughout 2008, Triad began to acknowledge serious issues surrounding its exposure to anticipated losses and defaults related to its book of business for its Alt-A and pay-option adjustable rate mortgage (“ARM”) products written in 2006 and 2007 due to a failure to engage in proper underwriting practices. As the truth about Triad’s

financials and business outlook emerged, the artificial inflation in the Company's stock came out and the stock began to drop.

6. On August 27, 2007, Triad disclosed in a form 8-K filed with the SEC that the Company had drawn down the entire \$80 million available on its credit line.

7. This was part of a series of partial disclosures and revelations concerning the truth about Triad's exposure to the instability in the real estate and credit markets. Nonetheless, Triad's stock continued to trade at artificially inflated levels as this revelation, along with the ones made during the remainder of the Class Period, was accompanied by denials and continued misrepresentations by defendants. Upon this news, Triad's stock dropped \$6.00 per share on August 28, 2007, to close at \$19.00 per share – the lowest point in more than three years. This represented a one-day decline of 24% on high volume.

8. In mid-October 2007, as news surfaced concerning the true state of Triad's financials and business outlook, Triad's stock price began to decline rapidly. Between October 16, 2007 and October 18, 2007, Triad's stock dropped \$6.86 per share to close at \$9.29 per share on October 18, 2007, a two-day decline of 42% on high volume.

9. Thereafter, in late 2007 throughout 2008, the truth about Triad's financials and business outlook continued to emerge and Triad's stock price continued to decline.

10. On June 19, 2008, Triad issued a press release entitled "Triad Guaranty Announces Termination of Negotiations With Lightyear Capital; Plans to Cease Writing New Business and Commence Run-Off, which stated in part:

Triad Guaranty Inc. announced today that it has ended its negotiations with Lightyear Capital LLC to form a new mortgage insurance company. Triad also reported today that Freddie Mac informed Triad that the appeal of its subsidiary's suspension as an approved mortgage insurer has been denied. *As a result of these developments, Triad's subsidiary, Triad Guaranty Insurance Corporation, will cease issuing commitments for mortgage insurance effective July 15, 2008 and will work with its*

customers, the Illinois Division of Insurance and each of the GSEs to assure an orderly transition of its business to run-off.

Mark Tonnesen, President and Chief Executive Officer of Triad, said, “The difficult decisions made by our Board with respect to these matters were based on a candid and thorough evaluation of our current situation and how to best serve the interests of Triad and its customers and policyholders going forward. We want to thank Lightyear Capital for its efforts. They worked very hard with us to develop a transaction that we believe would have ultimately served the interests of Triad’s stakeholders, but certain hurdles arose that prevented the transaction from being feasible. We are continuing to work with our financial advisor, Goldman Sachs, to explore whether other strategic alternatives are available, but we are not optimistic that any opportunities will surface.

Triad plans to reduce its workforce by approximately 100 persons in the coming weeks and will commence a run-off of its existing book of business. Mr. Tonnesen said, “We believe Triad has the resources and talent to manage an effective run-off. As previously indicated, we currently expect that our run-off will enable the payment of all legitimate policyholder claims, and we will dedicate ourselves to the success of the run-off plan as our number one objective.

11. Upon this news, Triad’s stock price dropped \$0.83 per share to close at \$1.22 per share on June 19, 2008, a one-day decline of 40%, on volume of 1.1 million shares, over three times the average three month volume. This was the lowest price Triad’s stock had traded at in its 15 years as a public company.

12. Then, on November 10, 2008, Triad issued its financial results for the third quarter of 2008, in a release which stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended September 30, 2008 of \$160.1 million compared with a net loss of \$198.8 million for the second quarter of 2008 and a net loss of \$31.8 million in the third quarter of 2007. The 2008 third quarter loss per share was \$10.69 compared to a net loss per share of \$13.36 for the 2008 second quarter and \$2.15 for the third quarter of 2007.

The net loss for the nine months ended September 30, 2008 was \$508.9 million compared to a net loss of \$2.5 million for the nine months ended September 30, 2007. The loss per share was \$34.14 for the first nine months of 2008 compared to a loss per share of \$0.17 for the same period last year.

Ken Jones, President and CEO, said, “Our focus is now strictly on the efficient and effective servicing of our insured portfolio, particularly around loss

mitigation. We continue to improve our processes in this area by examining and refining all aspects of our default management and claims process, including enhancing our processes for investigating potential misrepresentation and fraud in the mortgage commitment process. The amount of risk in default or in the foreclosure process continues to increase and, as a result, our loss reserves increased significantly again in the third quarter. The distressed markets of California, Florida, Arizona and Nevada continue to be adversely impacted by declining home prices, and reserves for defaults in these states comprised approximately 65% of the increase in our gross reserves for the quarter.

Mr. Jones noted, “We continue to work closely with our primary regulator, the Illinois Division of Insurance, as well as with Fannie Mae and Freddie Mac. We have obtained the approval of our run-off plan from the Illinois insurance regulators and have reviewed it with the GSEs. Due to the continued increase in defaults and the related provision for expected future paid losses, we are now reporting a deficiency in assets at September 30, 2008. Since much of the decline in stockholders’ equity during 2008 is from increases in our reserve for losses, cash and invested assets have actually increased during 2008, with positive cash flow from operations for the nine months ended September 30, 2008 amounting to \$151 million.

“Our underlying performance during the quarter was generally consistent with our run-off plan, as the plan projected significant losses in the early stages of the run-off period. Additionally, we have not realized a significant portion of the structured benefits on the modified pool stop losses and captive reinsurance benefits that we anticipate in the subsequent years of the run-off. Finally, it should be noted that no benefit has been recognized in these financial statements from our \$95 million excess of loss reinsurance policy that is presently in arbitration.

Triad is no longer issuing commitments for new mortgage insurance; therefore, production during the third quarter was insignificant. Total insurance in force amounted to \$64.3 billion at September 30, 2008, a 3.0% decline from June 30, 2008 and a 5.4% decline since last year. The primary reason for the lack of any significant decline in our insurance in force is high persistency rates as reduced credit availability and declining home prices limit the opportunities for borrowers to refinance existing mortgages.

Net losses and loss adjustment expenses amounted to \$231.2 million for the third quarter of 2008, compared to \$292.7 million for the second quarter of 2008. Paid losses for the 2008 third quarter totaled \$59.8 million compared to \$68.2 million for the second quarter of this year, with the decline from the second quarter reflecting increased loss mitigation efforts, servicer delays in filing claims, and foreclosure moratoriums. The increase in reserves of \$166.0 million in the third quarter of 2008 was less than the increase in reserves of \$218.6 million during the second quarter of this year. The 2008 second quarter growth in reserves included an increase in both the frequency and severity factors utilized in the reserve model that added

approximately \$59 million, while no such changes in either the frequency or severity factors were made during the third quarter.

Operating expenses were down significantly compared to the second quarter of 2008, which included accruals for severance and other exit costs of approximately \$12 million. The third quarter results reflect the downsizing of Triad's workforce as well as other operating efficiencies. During the third quarter of 2008, pre-tax investment losses included other-than-temporary impairments of investments of \$9.6 million, which was largely attributable to adverse events in the overall capital markets during the quarter. The effective tax rate for both the quarter and nine months ended September 30, 2008 reflects the inability to recognize the full tax benefit on the pre-tax loss as the Company expects to be in a net operating loss carry forward position for the foreseeable future.

13. On this news, Triad's stock price dropped \$0.11 per share to close at \$0.70 per share on November 11, 2008, a one-day decline of 13%, on high volume.

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

(a) The Company was not adequately accounting for its loss reserves in violation of Generally Accepted Accounting Principles ("GAAP"), causing its financial results to be materially misstated;

(b) The Company failed to engage in proper underwriting practices for its book of business related to insurance written in 2006 and 2007, including the insurance related to its Alt-A and pay-option ARM products;

(c) The Company had far greater exposure to anticipated losses and defaults related to its book of business related to insurance written in 2006 and 2007, including its Alt-A and pay-option ARM portfolios, than it had previously disclosed;

(d) The Company lacked effective internal controls to detect fraud and misrepresentations in the underwriting process; and

(e) The Company failed to disclose the true risks associated with its ability to continue to write new business. Given rating downgrades and capital limitations, the Company would be forced to liquidate its Canadian subsidiary and stop writing new insurance policies and transition the business to run-off.

15. As a result of defendants' false statements, Triad's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 98% from their Class Period high.

JURISDICTION AND VENUE

16. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

17. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(b) Triad's principal executive offices are located at 101 South Stratford Road, Winston-Salem, North Carolina.

PARTIES

18. Plaintiff ██████████ purchased Triad common stock as described in the attached certification and was damaged thereby.

19. Defendant Triad, through its subsidiary, Triad Guaranty Insurance Corporation, provides private mortgage insurance products to residential mortgage lenders and investors in the United States. Triad stock trades under the symbol TGIC on the Nasdaq market.

20. Defendant Mark K. Tonnesen (“Tonnesen”) was, at relevant times, President and Chief Executive Officer (“CEO”) of the Company. He retired from his executive positions in August 2008.

21. Defendant Kenneth W. Jones (“Jones”) was, at relevant times, Senior Vice President and Chief Financial Officer (“CFO”) of Triad. In October 2008 he assumed the role of President and CEO of the Company.

22. Defendants Tonnesen and Jones (the “Individual Defendants”), because of their positions with the Company, possessed the power and authority to control the contents of Triad’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were 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 with the Company, and their access to material non-public information available to them but not to the public, the Individual 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 being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

23. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Triad. Defendants’ fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Triad common stock was a success, as it: (i) deceived the investing public regarding Triad’s prospects and business; (ii) artificially inflated the

price of Triad common stock; and (iii) caused plaintiff and other members of the Class to purchase Triad common stock at inflated prices.

BACKGROUND

24. Triad, through its subsidiary, Triad Guaranty Insurance Corporation, provides private mortgage insurance products to residential mortgage lenders and investors in the United States. Its mortgage insurance products include primary insurance, which provides mortgage default protection to lenders on individual loans and covers a percentage of unpaid loan principal, delinquent interest, and expenses associated with the default and subsequent foreclosure. The Company also facilitates the sale of mortgage loans in the secondary market. It sells its products to residential mortgage lenders, such as mortgage bankers, mortgage brokers, commercial banks, and savings institutions through its sales force and a commissioned general agency.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

25. On October 26, 2006, the Company issued a press release entitled "Triad Guaranty Inc. Reports Earnings of \$19.4 Million for the Third Quarter." The release stated in part:

Triad Guaranty Inc. today reported net income for the quarter ended September 30, 2006 of \$19.4 million compared with \$15.3 million for the same quarter a year ago, an increase of 27%. Diluted earnings per share were \$1.30 for the third quarter of 2006 compared with \$1.03 for the third quarter of 2005, an increase of 26%. Realized investment losses, net of taxes, did not impact earnings in the third quarter of 2006, compared with a reduction of \$0.01 per share in the same quarter of 2005.

Net income for the nine months ended September 30, 2006 was \$57.6 million compared with \$44.3 million for the same period in 2005. Diluted earnings per share were \$3.86 for the first nine months of 2006 compared to \$2.99 for the same period last year. Realized investment gains, net of taxes, contributed \$0.07 per share for the first nine months of 2006 and did not impact earnings per share for the nine months ended September 30, 2005.

Mark K. Tonnesen, President and Chief Executive Officer, said, "Our growth in insurance in force, coming from solid sales results in both the Primary and Modified Pool channels coupled with continuing persistency improvements,

led to another quarter of strong revenue and earnings growth. Earned premiums increased 23% over both the quarter and year-to-date periods when compared with the prior year. Our incurred loss ratio for the quarter at 35.7% was in line with our expectations and included a \$5.2 million increase in reserves from the preceding quarter.

Mr. Tonnesen continued, “Our operating income, which excludes realized investment gains and losses, set a record this quarter. We view this as a very satisfactory result. ***Credit quality has remained a key area of focus; and our performance in this regard is very encouraging.*** Expenses were higher in the quarter and much of the increase was due to our planned investment in building for a strong future. Complementing the earnings growth is the fact that reserves and stockholders’ equity at September 30, 2006 were up 18% and 12%, respectively, from the beginning of the year.

* * *

Mr. Tonnesen concluded by saying, “Navigating the waters of the mortgage industry is a critically important and challenging task. The Triad team has demonstrated deftness this quarter through balancing growth, credit quality, prudent investment and attention to balance sheet fundamentals.”

26. On January 25, 2007, the Company issued a press release entitled “Triad Guaranty Inc. Reports Earnings of \$81. Million for the Fourth Quarter and Adds \$24.2 Million to Reserves.

The release stated in part:

Triad Guaranty Inc. today reported net income for the quarter ended December 31, 2006 of \$8.1 million compared with \$12.6 million for the same quarter a year ago, a decrease of 35%. Diluted earnings per share were \$0.54 for the fourth quarter of 2006 compared with \$0.85 for the fourth quarter of 2005, a decline of 36%. Realized investment losses, net of taxes, did not impact earnings in the fourth quarter of 2006, compared with realized investment gains of \$0.01 per share in the same quarter of 2005.

Net income for the full year 2006 was \$65.6 million compared with \$56.8 million for 2005. Diluted earnings per share were \$4.40 for the full year 2006 compared to \$3.84 for 2005, an increase of 15%. Realized investment gains, net of taxes, contributed \$0.07 per share for the full year 2006 and did not impact earnings per share in 2005.

Mark K. Tonnesen, President and Chief Executive Officer, said, “Despite many positive developments in the fourth quarter, our earnings are disappointing. While the increase in defaults and the number of paid claims was virtually on target, our average cost per paid claim increased significantly. The fundamental cause of the higher loss per claim was the impact of the slowing housing market on our claims

mitigation efforts. A larger percentage of our claims paid in the fourth quarter were full option settlements, causing the average severity on both Primary and Modified Pool business to increase from the levels observed over the last five quarters. In response to this change, which emerged in the fourth quarter, we felt it was both prudent and necessary to adjust the severity factors utilized in our reserving methodology, which increased our reserves and, in turn, our incurred losses. The increase in the severity factors was the major driver of the \$24.2 million increase in reserves during the quarter, although a portion of the increase was attributable to changes in our frequency factors and the natural growth and seasoning of our portfolio.

Mr. Tonnesen continued, "Our fundamentals remain strong. Strong production and improved persistency throughout 2006 led to a 28% increase in insurance in force from the end of 2005, with earned premiums increasing 29% for the fourth quarter, and 25% for the full year, compared to the prior year periods. We also established a number of important new customer relationships. Portfolio performance remained solid with reserved default counts increasing only 5% during 2006 while insurance in force grew at 28%. Our expense ratio for the fourth quarter of 2006 dropped to 22.8% compared to 26.4% during the same quarter last year, primarily the result of the increase in written premiums during the period.

27. On April 26, 2007, the Company issued a press release entitled "Triad Guaranty Inc.

Reports Earnings of \$17.3 Million for the First Quarter, which stated in part:

Triad Guaranty Inc. today reported net income for the quarter ended March 31, 2007 of \$17.3 million compared with \$18.6 million for the same quarter a year ago, a decrease of 7%. Diluted earnings per share were \$1.16 for the first quarter of 2007 compared with \$1.25 for the first quarter of 2006, a decrease of 7%. Realized investment gains, net of taxes, increased diluted earnings per share by \$0.03 in the first quarter of 2007 and \$0.04 the first quarter of 2006.

Mark K. Tonnesen, President and Chief Executive Officer, said, "The highlight for the quarter was our continued success in new production which contributed to the 34% top line growth in earned premiums. Strong Primary production during the quarter coupled with improved persistency enabled our total insurance in force to grow 28% compared to a year ago. ***Changes in the market place – including tax deductibility for mortgage insurance, problems evidenced in sub prime, widening credit spreads, a flat yield curve, and a concurrent movement toward more traditional underwriting and products – have favored our business. We view this as an opportunity for Triad.***"

Mr. Tonnesen continued, "That said, it remains difficult navigating through these unsettled times in the housing and mortgage markets. Most challenging in the short term is weakness in the housing market. Home prices are generally flat to declining and housing inventories are growing steadily, placing continued pressure

on the amount of paid claims and our ability to effectively mitigate potential losses. The result for the first quarter was continued building of reserves and a quarterly loss ratio of 50.9%. ***Our strategy to limit our exposure to the sub prime market has proven wise. However, we have changed our portfolio profile over time to include more Alt A product and recently more potential negative amortization mortgages. These products continue to perform as expected but require our ongoing diligent review as they season further.***

28. On July 25, 2007, the Company issued a press release entitled “Triad Guaranty Inc.

Reports Earnings of \$15.3 Million for the Second Quarter, which stated in part:

Triad Guaranty Inc. today reported net income for the quarter ended June 30, 2007 of \$15.3 million compared with \$19.6 million for the same quarter a year ago, a decline of 22%. Diluted earnings per share were \$1.02 for the second quarter of 2007 compared with \$1.31 for the second quarter of 2006, a decrease of 22%. Realized investment gains, net of taxes, increased diluted earnings per share by \$0.05 in the second quarter of 2007 compared to \$0.03 per share in the same quarter of 2006.

Net income for the six months ended June 30, 2007 was \$32.6 million compared to \$38.1 million for the same period in 2006. Diluted earnings per share were \$2.18 for the first six months of 2007 compared to \$2.56 for the same period last year. Realized investment gains, net of taxes, contributed \$0.08 per share for the first six months of 2007 compared to \$0.07 per share for the six months ended June 30, 2006.

Mark K. Tonnesen, President and Chief Executive Officer, said, “Our financial results for the quarter are a function of the trends in the housing and mortgage markets. Increases in defaults and foreclosures coupled with generally flat to declining home prices have led us to substantially increase our reserves since the fourth quarter of 2006, and our second quarter results reflect a continuation of this trend. While we have felt the impact across the board geographically, both California and Florida were significant contributors to the reserve increase this quarter due to an increasing default rate and the higher average loan size of our insured loans in those states. Additionally, while it is too early to predict the ultimate performance, the 2006 book has experienced defaults at a faster pace when compared to earlier vintage years.

Mr. Tonnesen continued, “Our top line growth in both new insurance written and premiums is reflective of the market changes that have improved the competitive position of mortgage insurance. Nonetheless, the remainder of 2007 will be pursued cautiously with the focus on loan quality. We will focus our marketing efforts on increasing the number of lender partners with which we do business. Our efforts in Canada continue to be going well, although, we do not anticipate a meaningful amount of revenue from Canada until 2008.”

29. On August 27, 2007, Triad made the following disclosure in a Form 8-K filed with the SEC:

Triad Guaranty Inc. (the “Company”) maintains an \$80 million, unsecured revolving credit facility (the “Credit Facility”), which was entered into pursuant to that certain Credit Agreement (“Credit Agreement”) dated as of June 28, 2007, among Bank of America, N.A. (“Agent”), Branch Banking & Trust Company, LaSalle Bank, National Association (all three banks collectively, “Current Lenders”) and Banc of America Securities LLC. The Credit Facility, which expires in 2010, was entered into to provide short-term liquidity for insurance operations and general corporate purposes. The Credit Agreement contains an option that allows the Company to increase the Credit Facility to an aggregate total of \$100 million.

* * *

On August 22, 2007, the Company drew down the entire \$80 million principal amount of the Credit Facility under a Eurodollar rate borrowing. The principal amount of this loan will bear interest at 5.685% for the interest period ending November 23, 2007 (“Maturity Date”). Interest on this loan is due on the Maturity Date. The principal amount must be paid on the Maturity Date unless the Company elects to prepay the loan or extends the loan by giving notice three business days prior to the Maturity Date. Should the Company elect to extend the loan; [sic] the Company will be required to notify the Agent in writing of the amount, type of borrowing (base or Eurodollar rate) and interest rate period of the loan continuation. The loan can only be accelerated by an event of default. The proceeds of the loan were placed in short-term investments pending future use, if any. Although the Company has no immediate needs for additional liquidity, in light of current market conditions, the Company drew on the Credit Facility to provide it with greater financial flexibility.

30. This was part of a series of partial disclosures and revelations concerning the truth about Triad’s exposure to the instability in the real estate and credit markets. Nonetheless, Triad’s stock continued to trade at artificially inflated levels as this revelation, along with the ones made during the remainder of the Class Period, was accompanied by denials and continued misrepresentations by defendants. Upon this news, Triad’s stock dropped \$6.00 per share on August 28, 2007, to close at \$19.00 per share – the lowest point in more than three years. This represented a one-day decline of 24% on high volume.

31. On October 17, 2007, MGIC Investment, Triad's competitor, announced that it had suffered its first quarterly loss as a public company due to a large increase in both the amount and severity of defaults. MGIC Investment further indicated that it had more exposure to anticipated losses and defaults related to its book of business written in 2005 through most of 2007 than previously represented due to a failure to engage in proper underwriting practices.

32. On October 18, 2007, the PMI Group, another competitor of Triad's, similarly announced disastrous quarterly results and a poor earnings outlook for the foreseeable future.

33. As a result of the announcements by Triad's closest competitors regarding poor results and outlooks, analyst Keefe, Bruyette & Woods downgraded Triad from Outperform to Market Perform on October 18, 2007.

34. In mid-October 2007, as this news surfaced concerning the true state of Triad's financials and business outlook, Triad's stock price began to decline rapidly. Between October 16, 2007 and October 18, 2007, Triad's stock dropped \$6.86 per share to close at \$9.29 per share on October 18, 2007, a two-day decline of 42% on high volume.

35. On October 24, 2007, the Company issued a press release entitled "Triad Guaranty Inc. Increases Reserves Substantially in the Third Quarter, Reports Net Loss of \$31.8 Million. The release stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended September 30, 2007 of \$31.8 million compared with net income of \$19.4 million for the same quarter in 2006. The diluted loss per share was \$2.13 for the third quarter of 2007 compared to diluted earnings per share of \$1.30 for the third quarter of 2006. Realized investment gains, net of taxes, had no impact on diluted per share amounts for the third quarter of 2007 or 2006.

The net loss for the nine months ended September 30, 2007 was \$2.5 million compared to net income of \$57.5 million for the same period in 2006. The diluted loss per share was \$0.17 for the first nine months of 2007 compared to diluted earnings per share of \$3.86 for the same period in 2006. Realized investment losses, net of taxes, increased the net loss per share by \$0.13 for the first nine months of

2007. Realized investment gains, net of taxes, increased earnings per share by \$0.07 for the first nine months of 2006.

Mark K. Tonnesen, President and Chief Executive Officer, said, “The third quarter marked an escalation of the market changes that began earlier this year. Our portfolio experienced significant pressures on the heels of the liquidity issues that affected the availability of mortgage lending and the rapid deterioration of the housing markets in certain areas of the United States. ***During the third quarter we took action to increase reserves significantly, reflecting both the increase in newly reported defaults as well as the effect of a declining cure rate on existing defaults.***

Mr. Tonnesen continued, “Triad is known for its efforts to maintain a high quality portfolio and we remain committed to this objective. Nevertheless, our results demonstrate that we are not immune from the forces at play. While it is true that there are many favorable trends in our business, including persistency, improved underwriting and mortgage insurance penetration, we remain cautious regarding the state of the market. During the quarter, we and our customers significantly tightened guidelines. ***Our near term goals are to invest in areas of loss mitigation, help all stakeholders better understand our business through increased transparency, and support our customers as they seek quality underwriting decisions.***

36. On November 21, 2007, the Company responded to Standard & Poor’s rating in a press release entitled “Triad Comments on Standard & Poor’s Revision of Triad’s Ratings, stating in part:

Triad Guaranty Inc. had the following comment in response to S&P’s decision to change the counterparty credit and financial strength rating for its subsidiary, Triad Guaranty Insurance Corporation, from ‘AA’ to ‘AA-’, and its counterparty credit rating on Triad Guaranty Inc., the holding company, from ‘A’ to ‘A-’. The outlook is ‘Stable’.

Mark K. Tonnesen, President and CEO of Triad Guaranty Inc. said, “It is unfortunate that concerns regarding the mortgage and housing industries and their effect on near-term performance has prompted an S&P downgrade. We believe that the S&P comments regarding our capital strength and prospects for the future are particularly important in these uncertain times. Insuring mortgages is a cyclical business. Mortgage insurance is purchased in order for us to provide a first line of defense in times such as these. We are proud to provide that support now as the industry faces its current challenges.

37. On February 13, 2008, Triad issued a press release entitled “Triad Guaranty Inc. Reports \$75.0 Million Loss for Fourth Quarter Reflecting Further Deterioration in the Housing and Mortgage Markets, which stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended December 31, 2007 of \$75.0 million compared with net income of \$8.1 million for the same quarter in 2006. The diluted loss per share was \$5.05 for the fourth quarter of 2007 compared to diluted earnings per share of \$0.54 for the fourth quarter of 2006. Realized investment losses, net of taxes, had no impact on diluted per share amounts for the fourth quarter of 2007 or 2006.

The net loss for the year ended December 31, 2007 was \$77.5 million compared to net income of \$65.6 million in 2006. The diluted loss per share was \$5.22 for the year ended December 31, 2007 compared to diluted earnings per share of \$4.40 in 2006. Realized investment losses, net of taxes, increased the net loss per share by \$0.13 in 2007. Realized investment gains, net of taxes, increased earnings per share by \$0.07 in 2006.

Mark K. Tonnesen, President and Chief Executive Officer, said, “The trends we encountered in the third quarter accelerated in the fourth, especially the rise in defaults in locations where home prices are under pressure. While the total portfolio default counts increased 38% during the quarter, in California and Florida, default counts rose a combined 85%. The rapid and significant deterioration in the housing markets and its effect on our portfolio performance has prompted us to implement various measures reflected in our underwriting standards, capital management, loss mitigation and expense management.

Mr. Tonnesen continued, “During the fourth quarter, we took a leadership role in our industry by tightening underwriting guidelines. Our new guidelines, which address loan to value limitations, credit scores and loan documentation, and incorporate volume limitations in distressed markets, led to our reduced fourth quarter production and are expected to further limit production in 2008. The Company has developed and is actively pursuing a plan to manage and enhance its capital resources. Although, at this time, we can give no assurance that we will be able to successfully implement our plan, we realize these efforts are critically important to the future of Triad Guaranty. Thus, enhancing capital resources is a top priority. Capital management dictated our decision during the quarter to withdraw from Canada and contribute this capital to our U.S. insurance subsidiary.

38. On March 17, 2008, Triad issued a press release announcing a delay in the Company’s 10-K filing, which stated in part:

Triad Guaranty Inc. reported today that it will delay filing its Annual Report on Form 10-K for the period ended December 31, 2007. The Company expects to file the Report by April 1, 2008, which is within the time period permitted under applicable SEC rules.

As previously disclosed in its Current Report on Form 8-K filed February 14, 2008, the Company has developed and is pursuing a plan to enhance its capital resources. The Company currently is actively engaged in negotiations with a third party investor group regarding a potential transaction related to its capital enhancement efforts. The Annual Report would require disclosures regarding the nature and implications of the negotiations. As they have not been finalized, Triad has delayed the filing of its Annual Report.

Ken Jones, Senior Vice President and Chief Financial Officer said, “While we have completed our work on the Company’s 2007 financial statements, these negotiations are at a critical juncture. Although we cannot provide any assurance that these negotiations will be successful, we believe that delaying the filing of our Form 10-K will best serve the interests of the Company at this stage in the process.

39. On April 1, 2008, Triad filed its Form 10-K for year-end 2007. In its annual report, the Company disclosed the following:

Current Developments

Our risk-to-capital ratio has risen dramatically over the past year, driven primarily by significant increases in our risk-in-force during the past 12 months and operating losses we incurred in the last two quarters of 2007. We believe the housing and mortgage markets in 2008 will continue to be adversely affected by a number of factors, including declining home prices, an oversupply of homes offered for sale and increased foreclosures, particularly in certain distressed markets. We expect we will incur additional operating losses as new defaults are reported. ***Based on our internal projections, we must significantly augment our capital resources in the second quarter of 2008 in order to preserve our ability to continue to write new insurance.*** Since the fourth quarter of 2007, we have been working with a prominent financial advisory firm to pursue alternatives for enhancing our capital. We have not yet succeeded in obtaining any commitments for an investment in our company, and there can be no assurance that we will be able to obtain any such commitments in the future.

The proposals that have been considered involve structures under which Triad would implement a “run-off” plan and a newly formed mortgage insurer would acquire certain of Triad’s employees, infrastructure, sales force and insurance underwriting operations. In addition, we would cease writing new business. These proposals do not involve a direct investment in Triad. Completing any such transaction would be subject to numerous conditions, including obtaining

necessary consents and approvals from our stockholders, the Illinois Department of Insurance and other state insurance regulatory authorities, the GSEs, rating agencies and other third parties. No assurance can be given that such consents and approvals could be obtained or that we can complete any such transaction. In addition, no assurance can be given that we would have any ownership interest in any new mortgage insurer formed to acquire assets of Triad or have any opportunity to share in the potential financial returns available from insurance written by such an insurer.

40. Upon this news, Triad's stock dropped \$1.86 per share on April 2, 2008, to close at \$3.39 per share, a one-day decrease of 35% on high volume.

41. On May 12, 2008, Triad issued a press release entitled "Triad Guaranty Inc. Reports First Quarter Loss Reflecting Continued Deterioration in the Housing Markets," which stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended March 31, 2008 of \$150.0 million compared with net income of \$17.3 million for the same quarter in 2007. The diluted loss per share was \$10.09 for the first quarter of 2008 compared to diluted earnings per share of \$1.16 for the first quarter of 2007. Realized investment gains, net of taxes, decreased the loss per share by \$0.12 in the first quarter of 2008 while increasing the earnings per share by \$0.03 in the first quarter of 2007.

Mark K. Tonnesen, President and Chief Executive Officer, said, "The negative trends we encountered during the second half of 2007 continued to impact us during the first quarter of 2008. Housing prices remain under pressure across the country and the distressed markets of Florida, California, Arizona and Nevada continue to be particularly affected. Our reserves for existing defaults increased by \$174.6 million during the first quarter, reflecting continued growth in risk in default, with the distressed markets contributing 67% of the growth in reserves. Additionally, we recorded a net \$49.8 million pre-tax charge to recognize a premium deficiency. Also, we have decided to liquidate our Canadian subsidiary and recorded a \$2 million pre-tax charge to reflect the cost associated with winding down this operation."

Mr. Tonnesen continued, "We have previously disclosed our negotiations with Lightyear Capital LLC. We believe the transactions that we are currently negotiating with Lightyear offer the best outcome for our customers, policyholders, stockholders and employees given the current industry conditions and capital-raising environment. With the acknowledgment of the Illinois Division of Insurance, we continue to write new mortgage insurance business as we work towards the completion of definitive agreements with Lightyear. While there are many tasks that must be accomplished before we get to the final agreements, and there can be no guarantees that we will be successful in getting there, we are pleased with the progress thus far.

42. On May 22, 2008, Triad issued a press release entitled “Triad Guaranty Reports on Recent Developments With Freddie Mac, which stated in part:

Triad Guaranty Inc. reported today on recent communications and discussions it has had since last week with representatives of Freddie Mac and on the current status of the proposed transaction with Lightyear Capital LLC.

As previously reported, Triad Guaranty no longer satisfies either of the Government Sponsored Enterprises’ (GSEs) Type 1 mortgage insurer eligibility requirements, which has triggered an obligation to file acceptable remediation plans with the GSEs. Following the filing by Triad of its Form 10-Q last week, Freddie Mac advised Triad that its insurance subsidiary is suspended as an approved mortgage insurer, subject to an appeals process currently underway. Triad intends to vigorously pursue this appeal with Freddie Mac, which must be made in writing by May 29, 2008. Freddie Mac has informed Triad that it will continue to purchase mortgage loans insured or committed to be insured by Triad during the appeal process unless and until Triad and its customers are notified by Freddie Mac to the contrary. Triad believes this action by Freddie Mac should not have any immediate adverse impact on Triad’s ability to write new mortgage insurance, which Triad is continuing to do with the support of the Illinois Division of Insurance, while it pursues its previously announced proposed transaction with Lightyear. The benefits of the proposed transaction with Lightyear to all Triad policyholders and customers will be a key component of Triad’s submission to Freddie Mac.

Mark K. Tonnesen, President and CEO of Triad Guaranty Inc., said, “Freddie Mac and Fannie Mae are both continuing to accept new insurance written or committed by Triad. We welcome the opportunity to provide both the GSEs and our regulators with more details concerning our anticipated voluntary run-off plan and the benefits we believe can be achieved by completing the proposed transaction with Lightyear.

Triad also reported that it is continuing to negotiate definitive agreements with Lightyear Capital LLC, a New York-based private equity firm focused on financial services, which would result in the creation of a new monoline mortgage insurance company. Triad and Lightyear continue to work closely together to obtain all necessary approvals for the transaction. Completion of the proposed transaction with Lightyear remains subject to numerous conditions both within and outside the control of Triad and Lightyear and no assurance can be given that Triad or Lightyear will be successful in satisfying those conditions.

43. On June 19, 2008, Triad issued a press release entitled “Triad Guaranty Announces Termination of Negotiations With Lightyear Capital; Plans to Cease Writing New Business and Commence Run-Off, which stated in part:

Triad Guaranty Inc. announced today that it has ended its negotiations with Lightyear Capital LLC to form a new mortgage insurance company. Triad also reported today that Freddie Mac informed Triad that the appeal of its subsidiary's suspension as an approved mortgage insurer has been denied. ***As a result of these developments, Triad's subsidiary, Triad Guaranty Insurance Corporation, will cease issuing commitments for mortgage insurance effective July 15, 2008 and will work with its customers, the Illinois Division of Insurance and each of the GSEs to assure an orderly transition of its business to run-off.***

Mark Tonnesen, President and Chief Executive Officer of Triad, said, "The difficult decisions made by our Board with respect to these matters were based on a candid and thorough evaluation of our current situation and how to best serve the interests of Triad and its customers and policyholders going forward. We want to thank Lightyear Capital for its efforts. They worked very hard with us to develop a transaction that we believe would have ultimately served the interests of Triad's stakeholders, but certain hurdles arose that prevented the transaction from being feasible. We are continuing to work with our financial advisor, Goldman Sachs, to explore whether other strategic alternatives are available, but we are not optimistic that any opportunities will surface.

Triad plans to reduce its workforce by approximately 100 persons in the coming weeks and will commence a run-off of its existing book of business. Mr. Tonnesen said, "We believe Triad has the resources and talent to manage an effective run-off. As previously indicated, we currently expect that our run-off will enable the payment of all legitimate policyholder claims, and we will dedicate ourselves to the success of the run-off plan as our number one objective.

44. Upon this news, Triad's stock price dropped \$0.83 per share to close at \$1.22 per share on June 19, 2008, a one-day decline of 40%, on volume of 1.1 million shares, over three times the average three month volume. This was the lowest price Triad's stock had traded at in its 15 years as a public company.

45. On August 4, 2008, Triad issued a press release entitled "Triad Guaranty Inc. Reports Second Quarter Loss as Reported Defaults and Foreclosures Continue to Rise, which stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended June 30, 2008 of \$198.8 million compared with net income of \$12.0 million for the same quarter in 2007. The loss per share was \$13.36 for the second quarter of 2008 compared to diluted earnings per share of \$0.80 for the second quarter of 2007. The net loss for the six months ended June 30, 2008 was \$348.8 million compared to net income of \$29.3 million for the same period in 2007. The loss per share was \$23.45 for the first

six months of 2008 compared to diluted earnings per share of \$1.96 for the same period last year.

William T. Ratliff, III, Chairman and CEO, said, "As I take on this additional leadership role, Triad and the entire mortgage industry are facing significant challenges. During the second quarter we announced that Triad was going into run-off and we stopped issuing commitments for new mortgage insurance coverage effective July 15, 2008. Concurrent with the move to run-off, we took actions to reduce our workforce by approximately 45%. Our focus now is on the efficient and effective servicing of our insured portfolio, particularly around loss mitigation. We intend to continue to improve our processes in this area by examining and refining all aspects of our default management and claims process, including assessing servicer effectiveness, pursuing acquisitions of properties in foreclosure when appropriate and enhancing our investigations of potential fraud in the mortgage commitment process, particularly for recent policy years.

Mr. Ratliff continued, "The size of our second quarter loss reflects the depth and breadth of the collapse of the housing and mortgage markets. The continued growth in the number of defaults and foreclosures during the quarter required a significant increase in reserves. The distressed markets of California, Florida, Arizona and Nevada continue to be adversely impacted by declining home prices, and reserves for defaults in these states comprised approximately 68% of the increase in our reserves for the quarter.

46. Upon this news, Triad's stock price dropped \$0.51 per share to close at \$1.77 per share on August 5, 2008, a one-day decline of 22% on high volume.

47. On August 26, 2008, *Reuters* reported "Fitch Withdraws Triad's Ratings, which stated in part:

Fitch Ratings has announced that it has withdrawn the ratings of Triad Guaranty Inc. and its mortgage insurance subsidiary Triad Guaranty Insurance Corporation.

* * *

Today's action follows an announcement by Triad's management that it is transitioning its business into run-off and Fitch believes there is little investor interest in continued coverage of this rating.

Fitch notes that Triad's ratings had incorporated the full execution of the company's reinsurance facilities. In April of 2008, a third-party reinsurance provider notified Triad that it would be terminating a \$95 million reinsurance facility on the grounds of a covenant violation. Triad disagrees with the reinsurer's conclusion and, as stipulated by the reinsurance contract, has initiated an arbitration process to settle the dispute. Fitch is not in a position to ascertain the ultimate outcome of the

arbitration process, but notes that this reinsurance facility is a significant component of Triad's overall claims-paying resources.

48. On November 10, 2008, after the market closed, Triad issued its financial results for the third quarter of 2008, in a release which stated in part:

Triad Guaranty Inc. today reported a net loss for the quarter ended September 30, 2008 of \$160.1 million compared with a net loss of \$198.8 million for the second quarter of 2008 and a net loss of \$31.8 million in the third quarter of 2007. The 2008 third quarter loss per share was \$10.69 compared to a net loss per share of \$13.36 for the 2008 second quarter and \$2.15 for the third quarter of 2007.

The net loss for the nine months ended September 30, 2008 was \$508.9 million compared to a net loss of \$2.5 million for the nine months ended September 30, 2007. The loss per share was \$34.14 for the first nine months of 2008 compared to a loss per share of \$0.17 for the same period last year.

Ken Jones, President and CEO, said, "Our focus is now strictly on the efficient and effective servicing of our insured portfolio, particularly around loss mitigation. We continue to improve our processes in this area by examining and refining all aspects of our default management and claims process, including enhancing our processes for investigating potential misrepresentation and fraud in the mortgage commitment process. The amount of risk in default or in the foreclosure process continues to increase and, as a result, our loss reserves increased significantly again in the third quarter. The distressed markets of California, Florida, Arizona and Nevada continue to be adversely impacted by declining home prices, and reserves for defaults in these states comprised approximately 65% of the increase in our gross reserves for the quarter.

Mr. Jones noted, "We continue to work closely with our primary regulator, the Illinois Division of Insurance, as well as with Fannie Mae and Freddie Mac. We have obtained the approval of our run-off plan from the Illinois insurance regulators and have reviewed it with the GSEs. Due to the continued increase in defaults and the related provision for expected future paid losses, we are now reporting a deficiency in assets at September 30, 2008. Since much of the decline in stockholders' equity during 2008 is from increases in our reserve for losses, cash and invested assets have actually increased during 2008, with positive cash flow from operations for the nine months ended September 30, 2008 amounting to \$151 million.

"Our underlying performance during the quarter was generally consistent with our run-off plan, as the plan projected significant losses in the early stages of the run-off period. Additionally, we have not realized a significant portion of the structured benefits on the modified pool stop losses and captive reinsurance benefits that we anticipate in the subsequent years of the run-off. Finally, it should be noted

that no benefit has been recognized in these financial statements from our \$95 million excess of loss reinsurance policy that is presently in arbitration.

Triad is no longer issuing commitments for new mortgage insurance; therefore, production during the third quarter was insignificant. Total insurance in force amounted to \$64.3 billion at September 30, 2008, a 3.0% decline from June 30, 2008 and a 5.4% decline since last year. The primary reason for the lack of any significant decline in our insurance in force is high persistency rates as reduced credit availability and declining home prices limit the opportunities for borrowers to refinance existing mortgages.

Net losses and loss adjustment expenses amounted to \$231.2 million for the third quarter of 2008, compared to \$292.7 million for the second quarter of 2008. Paid losses for the 2008 third quarter totaled \$59.8 million compared to \$68.2 million for the second quarter of this year, with the decline from the second quarter reflecting increased loss mitigation efforts, servicer delays in filing claims, and foreclosure moratoriums. The increase in reserves of \$166.0 million in the third quarter of 2008 was less than the increase in reserves of \$218.6 million during the second quarter of this year. The 2008 second quarter growth in reserves included an increase in both the frequency and severity factors utilized in the reserve model that added approximately \$59 million, while no such changes in either the frequency or severity factors were made during the third quarter.

Operating expenses were down significantly compared to the second quarter of 2008, which included accruals for severance and other exit costs of approximately \$12 million. The third quarter results reflect the downsizing of Triad's workforce as well as other operating efficiencies. During the third quarter of 2008, pre-tax investment losses included other-than-temporary impairments of investments of \$9.6 million, which was largely attributable to adverse events in the overall capital markets during the quarter. The effective tax rate for both the quarter and nine months ended September 30, 2008 reflects the inability to recognize the full tax benefit on the pre-tax loss as the Company expects to be in a net operating loss carry forward position for the foreseeable future.

49. On this news, Triad's stock price dropped \$0.11 per share to close at \$0.70 per share on November 11, 2008, a one-day decline of 13%, on high volume.

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

(a) The Company was not adequately accounting for its loss reserves in violation of GAAP, causing its financial results to be materially misstated;

(b) The Company failed to engage in proper underwriting practices for its book of business related to insurance written in 2006 and 2007, including the insurance related to its Alt-A and pay-option ARM products;

(c) The Company had far greater exposure to anticipated losses and defaults related to its book of business related to insurance written in 2006 and 2007, including its Alt-A and pay-option ARM portfolios, than it had previously disclosed;

(d) The Company lacked effective internal controls to detect fraud and misrepresentations in the underwriting process; and

(e) The Company failed to disclose the true risks associated with its ability to continue to write new business. Given rating downgrades and capital limitations, the Company would be forced to liquidate its Canadian subsidiary and stop writing new insurance policies and transition the business to run-off.

51. As a result of defendants' false statements, Triad's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 98% from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

52. By misrepresenting Triad's financial outlook, the defendants presented a misleading picture of the Company's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Triad's business was not as healthy as represented, defendants falsely reported Triad's financial outlook and its actual business prospects going forward.

53. These claims of profitability caused and maintained the artificial inflation in Triad's stock price throughout the Class Period and until the truth was revealed to the market.

54. Defendants' false and misleading statements had the intended effect and caused Triad stock to trade at artificially inflated levels throughout the Class Period, reaching its all time high of \$58.45 per share in January 2007.

55. The truth about Triad's business operations, finances, business metrics, and future business and financial prospects began to enter the market with a series of partial disclosures and revelations beginning in August 2007 which were accompanied by denials and continuing misrepresentations by defendants. As a result, the artificial inflation in Triad's stock price did not come out of the stock all at once, rather the artificial price inflation came out over time, in bits, pieces, and spurts as the stock continued to trade at artificially inflated, albeit lower, prices through November 2008.

56. As a direct result of defendants' admissions and the public revelations regarding the truth about Triad's overstatement of its financial outlook and its actual business prospects going forward, Triad's stock price plummeted over 98%, falling from \$58.45 per share on January 24, 2007 to \$0.70 per share on November 11, 2008 – a drop of \$57.75 per share. This drop removed the inflation from Triad's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

CLASS ACTION ALLEGATIONS

57. 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 or otherwise acquired Triad common stock during the Class Period (the "Class"). Excluded from the Class are defendants.

58. 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. Triad has over 15 million shares of stock outstanding, owned by hundreds if not thousands of persons.

59. 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: whether the 1934 Act was violated by defendants; whether defendants omitted and/or misrepresented material facts; whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; whether defendants knew or deliberately disregarded that their statements were false and misleading; whether the price of Triad's common stock was artificially inflated; and the extent of damage sustained by Class members and the appropriate measure of damages.

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

61. 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.

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

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

63. Plaintiff incorporates ¶¶1-62 by reference.

64. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately 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.

65. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they: employed devices, schemes and artifices to defraud; made untrue statements of material facts 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; or 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 Triad common stock during the Class Period.

66. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Triad common stock. Plaintiff and the Class would not have purchased Triad 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.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

67. Plaintiff incorporates ¶¶1-66 by reference.

68. The Individual Defendants acted as controlling persons of Triad within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of Triad stock, the Individual Defendants had the power and authority to cause Triad to engage in the wrongful conduct complained of herein. Triad controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and

proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: January 28, 2009