

23. Between March 1992 and January 1996, in the Isle of Man, a self-governing British crown dependency located between Scotland and Northern Ireland in the Irish Sea, Sam Wyly established ten (10) trusts and Charles Wyly established seven (7) trusts (collectively the "Offshore Trusts"), naming many of them for places or events of personal significance. Among the Offshore Trusts' names, for example, were Louisiana towns and schools associated with the Wyls' youth, including Lake Providence, where the Wyls were born, Delhi, where the Wyls attended high school,

9 The Wyls Appointed Trusted Loyalists to Serve as "Protectors"<sup>29</sup>. Although the language of the trust agreements governing the Wyls'

Offshore Trusts purported to confer upon the Offshore Trustees broad and exclusive authority to manage the trust assets, this authority was illusory. Under the trust agreements, trust Protectors were granted the right "to remove, appoint or replace any Trustee with or without cause at any time," as well as the right to add or remove trust beneficiaries. In practice, the Offshore Trusts were controlled by these Protectors, who

were Wyly-appointed loyalists whose livelihoods were dependent on the Wyls and whose function was to ensure that the Wyls' instructions for the Offshore Trusts were executed.

31. The Wyls employed a protocol for effecting transactions in their Offshore System. One or both of the Wyls conveyed instructions to the Protectors for transactions to be executed in their Offshore System. The Protectors, in turn, conveyed the instructions to the appropriate Offshore Trustee, who then implemented them by signing the necessary documentation, or, in the case of Issuer Securities transactions, by faxing the necessary trading instructions to Schaufele or his assistants; or, in the case of structured Issuer Securities transactions, by executing and returning the relevant portion

of transaction documents that the Wyls had first negotiated through Schaufele.<sup>32</sup> The Protectors' role was to convey the Wyls' instructions to the Offshore

Trustees and ensure that the instructions were followed.

To accomplish this, the Protectors were in regular communication with the Offshore Trustees. Between 1992 and early 2005, the Protectors issued thousands of instructions to the Offshore Trustees, several hundred of which directed Issuer Securities transactions.

33. The Protectors never initiated, devised or independently decided what Issuer Securities transactions to present to the Offshore Trustees, and never failed to convey the Wyllys' Issuer Securities instructions to the Offshore Trustees. Moreover, the Protectors conveyed to the Offshore Trustees instructions for only such Issuer Securities transactions as were directed by Sam Wyly or Charles Wyly.

4. Pursuant to the Defendants' scheme to conceal the Wyllys' control over the

Offshore System, the Protectors termed their instructions to the Offshore Trustees ~s

“recommendations,” thereby implying that the Offshore Trustees could exercise discretion by declining to implement them. Like the Protectors, however, the Offshore Trustees never initiated, devised or independently decided what transactions, in Issuer Securities or otherwise, were to be executed by the Offshore System. And just as the Protectors never failed to convey the Wyllys’ instructions to the Offshore Trustees, the Offshore Trustees never failed, in turn, to implement those instructions.

35. Despite the fact that the Protectors made thousands of “recommendations” for transactions to the Offshore Trustees from 1992 through at least early 2005, many relating to transactions worth tens of millions of dollars, the Offshore Trustees never deviated from executing such “recommendations.” When a “recommendation” came to the Offshore Trustees from the Protectors, they understood it was coming from the Wyllys themselves, and, if it was a transaction permitted by the Trust documents, which it effectively always was, it was implemented.

36. The Wyllys’ instructions, delivered to the Offshore Trustees by the Protectors, frequently left nothing to the Offshore Trustees’ judgment or discretion. In many Issuer Securities sales instructions, for example, the Offshore Trustees simply were told by the Protectors which Offshore Company or Offshore Companies were to sell stock, the total number of shares to sell, the maximum number of shares to be sold per day, the minimum price at which the shares could be sold, which broker to use, and how the proceeds were to be invested or applied. Instructions also occasionally required immediate action by the Offshore Trustees, affording them no time for any meaningful review or assessment prior to implementation. Such immediate action items included

"recommendations," thereby implying that the Offshore Trustees could exercise discretion by declining to implement them. Like the Protectors, however, the Offshore Trustees never initiate

The Wylys excluded the Offshore Trustees from negotiations of large Issuer Securities transactions entered into by the Offshore Companies. In every case, such transactions were first agreed upon by the Wylys and the terms were then negotiated between the brokerage house (most typically Lehman Brothers acting through Schauffele) and the Wylys (frequently represented by other Wyly family members, the Protectors, or both). As many of these transactions involved multiple Offshore Companies administered by different Offshore Trustees, each Offshore Trustee received only the finalized transaction documents concerning its portion of the overall transaction, whereas the Wylys, by contrast, knew and approved of the entire transaction in advance.

and Tallulah, the Wyllys' football rival high school. The beneficiaries of each of the Offshore Trusts were Sam or Charles Wyly, their respective family members, or both.

24. Initially, the Wyllys selected a single Isle of Man-based trust management company to serve as their Offshore Trusts' trustee. Between 1992 and 2004, however, the Wyllys selected numerous additional Isle of Man-based trust management companies to serve as their Offshore Trusts' trustees (the "Offshore Trustees"). Employees of the various respective Offshore Trustees served as directors of more than thirty (30) Isle of Man-based shell companies that were wholly-owned by the various respective Offshore Trusts ("Offshore Companies"). Like the Offshore Trusts, many of the Offshore Companies were given names of personal significance to the Wyllys, including East Carroll, the Louisiana Parish where the Wyllys grew up, and Tensas, the bayou site of the Wyllys' boyhood home. These Offshore Companies, along with the Offshore Trusts, comprised the Wyllys' Offshore System.

25. Commencing with the initial establishment of their Offshore System and continuing, at various times, over the next seven years, the Wyllys transferred to their Offshore System millions of stock options and warrants in Michaels, Sterling Software and Sterling Commerce that they had first received from those Issuers as director compensation. These transfers, which provided the bulk of the funding for their Offshore System, included the following:

- a. In April 1992, the Wyllys transferred options and warrants for 960,000 Michaels shares and 1,983,588 Sterling Software shares to ten of their Offshore Companies, whose ownership was divided among two of their Offshore Trusts;

