UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

[redacted] Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. LIQUID HOLDINGS GROUP, INC., BRIAN M. STORMS, KENNETH D. SHIFRIN, PETER R. KENT, RICHARD SCHAEFFER, BRIAN FERDINAND, JAY BERNSTEIN, DARREN DAVY, DAVID FRANCESCANI, WALTER RAQUET, THOMAS ROSS, VICTOR SIMONE, JR. DENNIS SUSKIND, ALLAN ZAVARRO, and SANDLER O'NEILL & PARTNERS, L.P., Defendants.	Case No. **CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS AND <u>DEMAND FOR JURY TRIAL</u>**

Plaintiff [redacted] ("Plaintiff"), by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff's information and belief is based upon, among other things, his counsel's investigation, which includes without limitation: (a) review and analysis of regulatory filings made by Liquid Holdings Group, Inc. ("Liquid" or the "Company"), with the United States Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases and media reports issued by and disseminated by Liquid; and (c) review of other publicly available information concerning Liquid.

NATURE OF THE ACTION AND OVERVIEW

1. This is a class action on behalf of persons or entities who purchased or otherwise acquired Liquid securities: (1) pursuant and/or traceable to the Company's Registration Statement and Prospectus (collectively, the "Registration Statement") issued in connection with the Company's initial public offering on or about July 25, 2013 (the "IPO" or the "Offering"); and/or (2) between July 26, 2013 and December 23, 2014, inclusive (the "Class Period"). Plaintiff seeks to pursue remedies under the Securities Act of 1933 (the "Securities Act") and under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Liquid is a cloud-based technology and managed services provider to the global hedge fund and active trading markets. Liquid's solutions are delivered through the cloud in a SaaS model. The Company claims that the Liquid platform was built to manage the entire trade lifecycle by integrating multi-currency, multi-asset trade order management and execution with real-time risk, portfolio management and shadow account reporting through a single solution. The Company purportedly offers the Liquid platform or any of its components on a subscription

basis to hedge fund managers, asset managers, family offices and financial institutions worldwide.

3. On July 26, 2013, Liquid priced its IPO of 3,175,000 shares of common stock, at a price of $9.00 per share, exclusive of the underwriters' exercise of their over-allotment option to purchase 464,238 additional shares.

4. On December 23, 2014, after the market closed, Liquid filed a Current Report on Form 8-K. Therein, in relevant part, the Company disclosed:

> As previously disclosed in the Company's 8-K dated December 23, 2014 (the "December 23 8-K"), the Company has notified QuantX Management, LLP (together with its affiliates, "QuantX") that QuantX is delinquent in payments owed to the Company in the aggregate amount of approximately $1.4 million pursuant to two technology services agreements and approximately $325,000 in additional delinquent payments, and has demanded that QuantX pay such amounts owing to the Company immediately. As also previously disclosed in the December 23 8-K, Liquid has also separately delivered a notice to QuantX declaring the unpaid principal amount of a term note and related obligations in the aggregate amount of approximately $244,000 owed by QuantX to Liquid to be immediately due and payable as a result of the failure to make timely payments of principal and interest to Liquid in accordance with the terms of the note.
>
> As of January 7, 2015, the Company has not received any payment from QuantX in response to the demand letters it issued. While Liquid has not received any formal communication from QuantX as to its status, Liquid's discussions with QuantX representatives indicate that QuantX is in the process of winding down and has limited operating cash left. Based on these discussions, Liquid believes that QuantX may not have the financial means to satisfy its obligations to the Company, and at this time expects that it may need to write off all or a significant portion of these obligations, which in the aggregate total approximately $2 million. The Company, with the assistance of counsel, intends to take appropriate steps in an effort to collect these obligations, although there can be no assurance that the Company will be successful in doing so.

5. On this news, shares of Liquid declined $0.34 from $0.74 per share at close on December 23, 2014, to $0.40 at close on December 24, 2014, a nearly 46% drop, on unusually heavy volume.

6. On September 16, 2015, the Company filed a Current Report with the SEC on Form 8-K disclosing that an internal investigation had uncovered the use of improper accounting practices involving the Company's improper recognition of revenue, and that the Company would be restating its Quarterly Report for the period ended September 30, 2014. The filing, in relevant part, stated:

> As previously reported, the Audit Committee (the "Audit Committee") of the Board of Directors (the "Board") of Liquid Holdings Group, Inc. (the "Company"), with the assistance of outside legal counsel, has conducted an investigation (the "Investigation") into certain issues raised by counsel to one of the Company's stockholders, including allegations about the Company's former senior management. Based on the Investigation's findings and upon the recommendation of the Company's executive officers, on September 10, 2015, the Audit Committee and the Board concluded that the Company's previously issued unaudited condensed consolidated financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 (the "Restatement Periods") should no longer be relied upon and should be restated (the "Restatement") due to certain accounting errors. The accounting errors involve the premature recognition of revenue from QuantX Management, LLP (together with its affiliates, "QuantX") and from other customers of the Company that had received allocations of capital from QuantX ("QuantX-related Customers") during the quarter ended September 30, 2014, before collectability was reasonably assured, given the significance of the uncertainty of collections from QuantX and QuantX-related Customers that became known to certain members of management during June 2014.
>
> Accordingly, investors should no longer rely upon the Company's previously filed financial statements and other financial data for the Restatement Periods or any press releases or other communications that relate to that information. The Company intends to present the restated financial statements and other financial data reflecting the Restatement in an amended and restated Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the "Amended Form 10-Q").

7. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose: (1) that the Company was overstating its ability to generate customers;

(2) that the Company's business model was unsustainable; (3) that the financial condition of the Company's main and largest customer (an investment entity known as QuantX Management, LLP ("QuantX")) was deteriorating; (4) that, as a result, the Company's financial results and operating metrics were overstated; (5) that, as such, the Company's financial statements were not prepared in accordance with Generally Accepted Accounting Principles ("GAAP"); (6) that the Company lacked adequate internal controls; (7) and that, as a result of the foregoing, the Company's financial statements and Defendants' statements about Liquid's business, operations, and prospects, were materially false and misleading at all relevant times.

8. 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 have suffered significant losses and damages.

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to Sections 11 and 15 of the Securities Act (15 U.S.C. §§ 77k and 77o), and 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 by the SEC (17 C.F.R. § 240.10b-5).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, Section 22 of the Securities Act (15 U.S.C. § 77v), and Section 27 of the Exchange Act (15 U.S.C. §78aa).

11. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b) and Section 27 of the Exchange Act (15 U.S.C. §78aa(c)). A significant portion of Defendants' actions, and the subsequent damages, took place in this Judicial District. Additionally, Liquid's principal executive offices are located within this Judicial District.

12. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

13. Plaintiff [redacted] as set forth in the accompanying certification, incorporated by reference herein, purchased Liquid shares during the Class Period, pursuant and/or traceable to the Registration Statement issued in connection with the Company's IPO, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

14. Defendant Liquid is a Delaware corporation with its principal executive offices located at 111 River Street, Suite 1204, Hoboken, NJ 07030.

15. Defendant Brian M. Storms ("Storms") was, at all relevant times, Chief Executive Officer ("CEO") and a director of Liquid and was, at all relevant times, Chairman of the Board from July 25, 2013 to December 23, 2013. Storms also signed the Company's Registration Statement as CEO and a director.

16. Defendant Kenneth D. Shifrin ("Shifrin") was, at all relevant times, Chief Financial Officer ("CFO") of Liquid until October 24, 2014. Shifrin also signed the Company's Registration Statement as CFO.

17. Defendant Peter R. Kent ("Kent") was, at all relevant times, CFO of Liquid beginning October 27, 2014.

18. Defendant Richard Schaeffer ("Schaeffer") was a director and Chairman of the Board of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

19. Defendant Brian Ferdinand ("Ferdinand") was a director and Vice Chairman of the Board of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

20. Defendant Jay Bernstein ("Bernstein") was a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

21. Defendant Darren Davy ("Davy") was a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

22. Defendant David Francescani ("Francescani") was, at all relevant times, a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

23. Defendant Walter Raquet ("Raquet") was, at all relevant times, a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

24. Defendant Thomas Ross ("Ross") was a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

25. Defendant Victor Simone, Jr. ("Simone") was, at all relevant times, a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

26. Defendant Dennis Suskind ("Suskind") was, at all relevant times, a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

27. Defendant Allan Zavarro ("Zavarro") was a director of Liquid and signed or authorized the signing of the Company's Registration Statement filed with the SEC.

28. Defendants Storms, Shifrin, and Kent 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 Liquid's 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/or misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

29. Defendants Storms, Shifrin, Schaeffer, Ferdinand, Bernstein, Davy, Francescani, Raquet, Ross, Simone, Suskind, and Zavarro are collectively referred to hereinafter as the "Section 11 Individual Defendants."

30. Defendant Sandler O'Neill & Partners, L.P. ("Sandler") served as the sole underwriter of the Company's IPO.

31. The Company, the Section 11 Individual Defendants, and Sandler, are collectively referred to hereinafter as the "Section 11 Defendants."

SUBSTANTIVE ALLEGATIONS

Background

32. Liquid is a cloud-based technology and managed services provider to the global hedge fund and active trading markets. Liquid's solutions are delivered through the cloud in a SaaS model. The Company claims that the Liquid platform was built to manage the entire trade lifecycle by integrating multi-currency, multi-asset trade order management and execution with real-time risk, portfolio management and shadow account reporting through a single solution. The Company purportedly offers the Liquid platform or any of its components on a subscription basis to hedge fund managers, asset managers, family offices and financial institutions worldwide.

33. On July 25, 2013, the SEC declared effective the Form S-1 that Liquid filed on April 11, 2013 and repeatedly amended, until on or about July 25, 2013, when the Company filed with the SEC the final Form S-1/A (collectively, the "Registration Statement") for the IPO.

34. On July 26, 2013, Liquid priced its IPO of 3,175,000 shares of common stock, at a price of $9.00 per share, exclusive of the underwriters' exercise of their over-allotment option to purchase 464,238 additional shares. According to the Company, the Offering raised $17.4 million for the Company, net of underwriting discounts, commissions and offering expenses.

Materially False and Misleading Statements Issued During the Class Period

35. The Class Period begins on July 26, 2013. On or about this day, the Company filed with the SEC its IPO Prospectus (the "Prospectus"), which forms part of the Registration Statement. Under applicable SEC rules and regulations, the Registration Statement was required

to disclose known trends, events or uncertainties that were having, and were reasonably likely to have, an impact on the Company's continuing operations.

36. With respect to revenue recognition and customer QuantX, the Registration Statement stated, in relevant part:

> ***Software revenue*.** We sell our software in two ways: direct customer sales and volume based institutional licensing. Direct customer revenue sales are generated through software licensing fees. Institutional licensing revenue is generated through software licensing and subscription fees, integration and customization fees and hosting and gateway fees. Prior to December 31, 2012, our software revenues also included messaging fees. Messaging fees are an additional technology fee of a fixed cost per message to those who utilize our infrastructure. Each time an order is created, sent or cancelled a message must be sent to a counterparty who will in kind return a message of confirmation. These fees were exclusively charged to our customer QuantX, an entity affiliated with Messrs. Ferdinand, Schaeffer and Keller, but will not be charged by us to QuantX in periods after December 31, 2012 and therefore messaging fees will not be included in our software revenue going forward. We generally recognize software revenue at the time of software delivery, provided all other revenue recognition criteria have been met. To date, the majority of our software revenue has been attributable to related parties, including our customer QuantX. We expect our software revenue to increase in absolute dollars as we continue to add new hedge funds, other asset managers and financial institutions to our customer base.

37. With respect to the Company's customers, the Registration Statement, in relevant part, stated:

> **Customers**
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> Our current and prospective customers are primarily small to mid-sized hedge fund managers, asset managers, wealth management offices, family offices and financial institutions. Our technology platform is available to our customers as an entire suite or customers can purchase products a la carte. As of June 1, 2013, we had 23 customers comprised of proprietary traders, small to mid-sized hedge funds and risk managers utilizing 385 units of our software product offerings. To date, our typical customer contracts do not have a fixed contract term and can be terminated with 30 days' prior notice; payment on the contracts is due monthly. Going forward, however, we expect that our future customer contracts will have a one-year contract term which will renew automatically for successive one-year terms, unless notice of termination is given at least 60 days prior to the contract's expiration date; payment on the contracts will be due

monthly. Our customers are, based on their respective billing addresses, located in the United States and Europe, with U.S. customers representing 72% of our total revenue and customers outside of the United States representing 28% of our total revenue during the

three months ended March 31, 2013. During this same period, a single customer, QuantX, an entity with which Messrs. Ferdinand, Schaeffer and Keller are affiliated, represented 26% of our total revenues and 76% of our software licensing revenues. In addition, for the three months ended March 31, 2013, all related parties, including QuantX, represented 30% of total revenues and 87% of our software licensing revenues.

38. On August 14, 2013, Liquid issued a press release entitled, "Liquid Holdings Group Reports Second Quarter 2013 Results." Therein, the Company, in relevant part, stated:

Financial Highlights for the Second Quarter of 2013

- Software services revenue increased 8.2% quarter over quarter to $0.7 million
- GAAP EPS of $(1.04)
- Adjusted EPS of $(0.18)
- Liquid completes its Initial Public Offering ("IPO") on July 31, 2013

"We are pleased with our second quarter results and the recent completion of our IPO, and look forward to focusing our efforts on our sales and development plans. During the quarter, we continued to execute on our strategy by expanding our executive team and our sales team with several key hires, growing our customer base, and delivering important system enhancements and upgrades," said Brian Storms, CEO of Liquid Holdings. "The growth and market acceptance we have achieved at such a formative stage of the Company's development is a testament to the strength of our cloud based platform and unique SaaS business model."

Second Quarter 2013 Results

Total revenue for the second quarter of 2013 was $1.4 million compared to $1.8 million in the first quarter of 2013. During the second quarter, Liquid exited the over-the-counter ("OTC") brokerage business, which accounted for the decline in total revenue.

Software services revenue, however, increased during the second quarter of 2013 to $0.7 million, or 8.2%, from $0.6 million in the first quarter of 2013.

GAAP net loss for the second quarter of 2013 was $21.7 million, or $1.04 per basic share, compared to a net loss of $5.1 million, or $0.26 per basic share, in the first quarter of 2013. The net loss for the second quarter was due primarily to share-based compensation of $16.1 million and amortization of acquisition-related intangible assets of $1.8 million, both non-cash expenses on our statement of operations.

Excluding share-based compensation and amortization of acquisition-related intangible assets, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the second quarter of 2013 was $3.8 million, or $0.18 per basic share, compared to an adjusted net loss of $2.4 million, or $0.12 per basic share, in the first quarter of 2013.

Cash used in operating activities totaled $4.0 million in the second quarter of 2013, compared to $2.7 million in the first quarter of 2013.

On July 26, 2013 Liquid priced its initial public offering of 3,175,000 shares of its common stock at $9.00 per share.

A reconciliation of the non-GAAP financial measures to their related GAAP financial measures is set forth in the financial tables below.

Key Operating Metrics:

- Liquid had 23 customers as of June 30, 2013 compared to 25 customers as of March 31, 2013 comprised of proprietary traders, small to mid-sized hedge funds and risk managers.
- Total software units deployed rose to 385 as of June 30, 2013, up 9.7% from 351 units as of March 31, 2013.

39. On September 9, 2013, Liquid filed its Quarterly Report with the SEC on Form 10-Q for the quarterly period ended June 30, 2013. The Company's 10-Q was signed by Defendants Storms and Shifrin and reaffirmed the Company's financial results previously announced on August 14, 2013.

40. The Company's Form 10-Q contained certifications pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), signed by defendants Storms and Shifrin, who certified:

1. I have reviewed this report on Form 10-Q of Liquid Holdings Group, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer 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 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 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 officer 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 functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely 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.

41. On October 31, 2013, Liquid issued a press release entitled, "Liquid Holdings Group Reports Third Quarter 2013 Results." Therein, the Company, in relevant part, stated:

Financial Highlights for the Third Quarter of 2013

- Annual Contract Value rose 85% quarter over quarter to $3.2 million
- Customer base grew 60% from June 30, 2013 to 48 customers
- Total contracted software units rose 35% from June 30, 2013 to 565 units
- Software services revenue increased 10% quarter over quarter to $732,000
- GAAP basic and diluted EPS of $(0.52)
- Adjusted basic and diluted EPS of $(0.18)

"We are pleased with our third quarter performance and the continued momentum of our cloud-based platform in the market. During the quarter, we entered into two major strategic partnerships, expanded our presence in international markets and substantially grew our client base. We attribute this success to our next-generation OERMS platform, which is the only solution in the market that integrates real-time risk within an OEMS system," said Brian Storms, CEO of Liquid Holdings. "In addition to executing on the large market opportunity in front of us, we are also exploring the potential to expand our product suite into new applications and customer segments."

Third Quarter 2013 Results

Software services revenue increased during the third quarter of 2013 to $732,000, or 10%, from $667,000 in the second quarter of 2013. Total revenue decreased in the third quarter of 2013 to $732,000 from $1.4 million in the second quarter of 2013. As previously disclosed, during the second quarter of 2013, Liquid exited the over-the-counter brokerage business in order to focus on software services, which accounted for the decline in total revenue.

GAAP net loss for the third quarter of 2013 was $12.2 million, or $0.52 per basic and diluted share, compared to a net loss of $21.7 million, or $1.04 per basic and diluted share, in the second quarter of 2013. The net loss for the third quarter was due primarily to compensation expense of $6.1 million, depreciation and amortization of $1.8 million, professional fees of $1.3 million and income tax expense of $1.3 million. Compensation expense included $1.9 million of share-based compensation. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets. Professional fees included an increase in costs associated with Liquid now being a publicly traded company. During the third quarter, Liquid converted to a corporation from a limited liability company. As such, a tax adjustment was made to revalue deferred tax liabilities at current corporate income tax rates, the result of which was a charge to income tax expense of $1.3 million. Also contributing to the third quarter loss was an expense of $650,000 incurred in connection with the completion of last year's Fundsolve acquisition via the settlement of a contingent consideration payable that was paid in shares of Liquid common stock (the "Fundsolve Issuance").

Excluding share-based compensation, amortization of acquisition-related intangible assets, and the Fundsolve Issuance, all of which are non-cash expenses, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the third quarter of 2013 was $4.3 million, or $0.18 per basic and diluted share, compared to an adjusted net loss of $3.8 million, or $0.18 per basic and diluted share, in the second quarter of 2013.

Cash used in operating activities totaled $2.7 million in the third quarter of 2013, compared to $4.0 million in the second quarter of 2013. Cash and cash equivalents totaled $13.5 million as of September 30, 2013.

A reconciliation of the non-GAAP financial measures to their related GAAP financial measures is set forth in the financial tables below.

Key Operating Metrics

- Annual contract value ("ACV") totaled $3.158 million at the end of the third quarter of 2013, an increase of 85% from $1.707 million at the end of the second quarter of 2013, driven by solid growth in new client acquisitions. ACV represents the aggregate annual value of our subscription contracts and is a leading indicator of future revenue growth. For more information about ACV, see "About Annual Contract Value (ACV)" below.
- Liquid had 48 customers as of September 30, 2013 consisting of 27 customers contributing to GAAP revenue and 21 customers under contract and expected to contribute to future GAAP revenue, compared to 30 customers as of June 30, 2013 consisting of 23 customers contributing to GAAP revenue and 7 customers under contract and expected to contribute to future GAAP revenue, representing a 60% increase in our customer base.
- Total software units rose to 565 units representing 455 units deployed and 110 units under contract as of September 30, 2013, an increase of 34.5% from a total of 420 units representing 385 units deployed and 35 units under contract as of June 30, 2013.

Business Highlights

The Company expanded its business in the international markets by commencing a strategic relationship with Global Prime Partners in London. Under the arrangement, Global Prime Partners is now offering the Liquid platform to its significant portfolio of existing European clients as well as all new prime brokerage clients. In addition, Global Prime Partners is implementing the Liquid platform internally to monitor its firm-wide risk exposure to its prime brokerage clients, including hedge funds and other asset managers. The Company's Liquid Prime Services business also expanded its trade execution and clearing services by entering into a new clearing arrangement with a major financial institution.

> Version 3.5 of the Liquid platform was released during the third quarter. Key product highlights include continued expansion of destination- and broker-neutral order routing, post-trade allocation, strategy order tagging, execution and position reporting, and order routing and pre-trade compliance engines.
>
> The Company expanded its sales and client service organization with the appointment of Ralph Lafferty as Head of West Coast Sales and established a customer care center in Hoboken, NJ to service its growing client base.

42. On November 14, 2013, Liquid filed its Quarterly Report with the SEC on Form 10-Q for the quarterly period ended September 30, 2013. The Company's Form 10-Q was signed by Defendants Storms and Shifrin, and reaffirmed the Company's financial results previously announced on October 31, 2013. The Form 10-Q contained certifications pursuant to SOX, signed by defendants Storms and Shifrin, and was substantially similar to the certifications described in ¶40, *supra*.

43. On February 27, 2014, Liquid issued a press release entitled, "Liquid Holdings Group Reports Fourth Quarter 2013 Results." Therein, the Company, in relevant part, stated:

> **Financial Highlights for the Fourth Quarter of 2013**
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> - Annual Contract Value rose 43% quarter over quarter to $4.5 million
> - Customer base grew 60% from September 30, 2013 to 77 customers
> - Total contracted software units rose 16% from September 30, 2013 to 656 units
> - Software services revenue increased 24% quarter over quarter to $909,000
> - GAAP basic and diluted EPS of $(0.31)
> - Adjusted basic and diluted EPS of $(0.16)
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> "Liquid delivered a strong fourth quarter performance marked by the continued market acceptance of our cloud-based platform. During the quarter, we signed a significant contract for our risk management platform, LiquidMetrics®; substantially increased our client base; and commenced strategic partnerships with Global Prime Partners and an investment advisory firm to further accelerate the distribution of our platform. We expanded our sales and client services organization to support our growing client base, and introduced additional features and functional enhancements on our OERMS platform" said Brian Storms, CEO of Liquid Holdings. "Moreover, our risk technology innovations and leadership were recognized by Hedgeweek magazine's readership of industry

practitioners, who voted Liquid the Best Risk Management Software Firm in 2014."

Fourth Quarter 2013 Results

Software services revenue increased during the fourth quarter of 2013 to $909,000, or 24%, from $732,000 in the third quarter of 2013. GAAP net loss for the fourth quarter of 2013 declined to $7.6 million, or $0.31 per basic and diluted share, compared to a net loss of $12.2 million, or $0.52 per basic and diluted share, in the third quarter of 2013. The net loss for the fourth quarter was due primarily to compensation expense of $4.0 million, depreciation and amortization of $1.9 million and professional fees of $1.4 million. Compensation expense included $2.0 million of share-based compensation. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets. Professional fees included an increase in costs associated with Liquid now being a publicly traded company.

Excluding share-based compensation and amortization of acquisition-related intangible assets, both of which are non-cash expenses, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the fourth quarter of 2013 was $3.8 million, or $0.16 per basic and diluted share, compared to an adjusted net loss of $4.3 million, or $0.18 per basic and diluted share, in the third quarter of 2013.

Cash used in operating activities totaled $4.5 million in the fourth quarter of 2013, compared to $2.7 million in the third quarter of 2013. Cash and cash equivalents totaled $8.5 million as of December 31, 2013. Subsequent to quarter-end, the company secured a credit facility from its two largest shareholders totaling $7.5 million.

Full Year 2013 Results

Total revenue for the full year 2013 rose to $4.8 million, up from $2.3 million for the comparable prior-year period. Software services revenue increased over this time period to $2.9 million from $1.0 million. GAAP net loss for the full year 2013 increased to $46.6 million, or $2.10 per basic and diluted share, compared to a net loss of $38.2 million, or $2.46 per basic and diluted share, during the comparable prior year period. The net loss for full year 2013 was due primarily to compensation expense of $18.9 million, consulting fees of $12.7 million and depreciation and amortization of $7.4 million. Included in compensation expense and consulting fees is $9.4 million and $11.6 million, respectively, of share-based compensation. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets.

A reconciliation of the non-GAAP financial measures to their related GAAP financial measures is set forth in the financial tables below.

Key Operating Metrics

- Annual contract value ("ACV") totaled $4.520 million at the end of the fourth quarter of 2013, an increase of 43% from $3.158 million at the end of the third quarter of 2013, driven primarily by one large contract for our risk management platform. ACV represents the aggregate annual value of our subscription contracts and is a leading indicator of future revenue growth. For more information about ACV, see "About Annual Contract Value (ACV)" below.
- Liquid had 77 customers as of December 31, 2013 consisting of 48 customers contributing to GAAP revenue and 29 customers under contract and expected to contribute to future GAAP revenue. This compares to 48 customers as of September 30, 2013 consisting of 27 customers contributing to GAAP revenue and 21 customers under contract and expected to contribute to future GAAP revenue.
- Total software units rose to 656 units representing 517 units deployed and 139 units under contract as of December 31, 2013, an increase of 16.1% from a total of 565 units representing 455 units deployed and 110 units under contract as of September 30, 2013.

Business Highlights

The Company expanded its sales and client services organization with several appointments including AR Caputo as Vice President of Client Relationship Management. Caputo will work with Liquid's client service team to ensure clients are optimizing their experience and usage of the applications as well as receiving the level of focus they need during the on-boarding period through to production.

Liquid announced a new "simulator" program that allows hedge fund start-ups to beta-test their strategies and simulate trading and portfolio management tasks on the Liquid platform while they are actively raising capital and/or preparing to launch their business.

Version 3.6 of the Liquid platform was released in January. Key product highlights include a more comprehensive toolkit of pre-trade risk and compliance controls, more robust options trading capabilities, and expanded global equities markets coverage.

More recently, the company signed a letter of intent with ConvergEx Prime Services, a best-in-class prime broker in the U.S. and a member of ConvergEx Group. Similar to Liquid's partnership with Global Prime Partners, ConvergEx will offer the Liquid platform to their growing roster of prime brokerage clients and will jointly work with the Liquid sales team to close greenfield opportunities for both firms.

44. On March 31, 2014, Liquid filed its Annual Report with the SEC on Form 10-K for the fiscal year ended December 31, 2013. The Company's Form 10-K was signed by Defendant Storms, and reaffirmed the Company's financial results previously announced on February 27, 2014. The Form 10-K contained certifications pursuant to SOX, signed by Defendants Storms and Shifrin, substantially similar to the certifications described in ¶40, *supra*.

45. On May 13, 2014, Liquid issued a press release entitled, "Liquid Holdings Group Reports First Quarter 2014 Results." Therein, the Company, in relevant part, stated:

> **Financial Highlights for the First Quarter of 2014**
>
> - ACV rose 16% quarter over quarter to $5.2 million
> - Customer base grew 55% from December 31, 2013 to 119 customers
> - Total contracted software units rose 16% from December 31, 2013 to 762 units
> - Software services revenue increased 41% quarter over quarter to $1.3 million
> - GAAP basic and diluted EPS of $(0.33)
> - Adjusted basic and diluted EPS of $(0.20)
>
> **First Quarter 2014 Results**
>
> Software services revenue increased during the first quarter of 2014 to $1.3 million, or 41%, from $0.9 million in the fourth quarter of 2013. GAAP net loss for the first quarter of 2014 increased to $8.2 million, or $0.33 per basic and diluted share, compared to a net loss of $7.6 million, or $0.31 per basic and diluted share, in the fourth quarter of 2013. The net loss for the first quarter was due primarily to compensation expense of $3.6 million, depreciation and amortization of $1.8 million, computer related and software development of $1.0 million and professional fees of $1.0 million. Compensation expense included $1.4 million of share-based compensation. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets.
>
> Excluding share-based compensation and amortization of acquisition-related intangible assets, both of which are non-cash expenses, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the first quarter of 2014 was $5.0 million, or $0.20 per basic and diluted share, compared to an adjusted net loss of $3.8 million, or $0.16 per basic and diluted share, in the fourth quarter of 2013.
>
> Cash used in operating activities totaled $5.8 million in the first quarter of 2014, compared to $4.5 million in the fourth quarter of 2013. Cash and cash equivalents totaled $2.3 million as of March 31, 2014. Additionally, the Company maintains

$7.5 million in revolving credit arrangements with two of its largest stockholders. On May 2, 2014, the Company borrowed $1.0 million under these revolving credit arrangements for working capital and general corporate purposes.

Key Operating Metrics

- ACV totaled $5.2 million at the end of the first quarter of 2014, an increase of 16% from $4.5 million at the end of the fourth quarter of 2013. ACV represents the estimated contract value of subscription payments payable to the Company during the next twelve months (or, in the case of subscription contracts where the remaining contract term is less than twelve months, the remaining value of such contracts) pursuant to subscription contracts existing at the end of the quarter for which Annual Contract Value is reported, including contracts pursuant to which the Company is currently generating no revenue because its product has not yet been deployed to the customer. For more information about ACV, see "About Annual Contract Value" below.
- Liquid had 119 customers as of March 31, 2014 consisting of 76 customers contributing to GAAP revenue and 43 customers under contract and expected to contribute to future GAAP revenue. This compares to 77 customers as of December 31, 2013 consisting of 48 customers contributing to GAAP revenue and 29 customers under contract and expected to contribute to future GAAP revenue.
- Total software units rose to 762 units representing 629 units deployed and 133 units under contract as of March 31, 2014, an increase of 16% from a total of 656 units representing 517 units deployed and 139 units under contract as of December 31, 2013.

Recent Business Highlights

In March, the Company was recognized by the readers of leading hedge fund industry magazine Hedgeweek as the "Best Risk Management Software Provider" for 2014, reflecting Liquid's real-time risk capabilities, which allow clients to actively monitor analytics, P&L, and performance across multiple asset classes, portfolios, and fund structures, all from a single cloud-based solution.

46. On the same day, Liquid filed its Quarterly Report with the SEC on Form 10-Q for the quarterly period ended March 31, 2014. The Company's Form 10-Q was signed by Defendant Shifrin, and reaffirmed the Company's financial results previously announced on May 13, 2014. The Form 10-Q contained certifications pursuant to SOX, signed by defendants Storms and Shifrin, substantially similar to the certifications described in ¶40, *supra*.

47. On July 31, 2014, Liquid issued a press release entitled, "Liquid Holdings Group Reports Second Quarter 2014 Results." Therein, the Company, in relevant part, stated:

> **Financial Highlights for the Second Quarter of 2014**
>
> - Software services revenue increased 20% over prior quarter and 131% year-over-year to $1.5 million
> - GAAP basic and diluted EPS of $(0.15)
> - Adjusted basic and diluted EPS of $(0.10)
> - Annual Contract Value ("ACV") rose 4.2% over prior quarter to $5.45 million
> - Customer base grew 9.2% from March 31, 2014 to 130 customers
> - Total contracted software units rose 3% from March 31, 2014 to 785 units
> - Substantially strengthened balance sheet and closed the quarter with $36 million in cash
>
> "Liquid delivered a solid second quarter performance driven by our direct sales efforts. Our results in the quarter were marked by increased market acceptance of the Liquid Platform and a broader distribution of client prime broker relationships. We further expanded our partner relationships to include a joint marketing agreement with ConvergEx, signed our second significant contract for our enterprise risk management platform, LiquidFIRM℠, and substantially strengthened our balance sheet," said Brian Storms, CEO of Liquid. "In addition, our cloud technology innovations were recognized with several industry honors, including the 2014 FTF News Technology Innovation Awards in the categories of Best Cloud Provider and Best Fin Tech Ops Start-Up and the 2014 Hedgeweek USA Award for Best U.S. Risk Management Software."
>
> **Second Quarter 2014 Results**
>
> Software services revenue increased during the second quarter of 2014 to $1.5 million, or 131%, from $0.7 million in the second quarter of 2013. GAAP net loss for the second quarter of 2014 decreased to $6.3 million, or $0.15 per basic and diluted share, compared to a net loss of $21.7 million, or $1.04 per basic and diluted share, in the second quarter of 2013. The net loss for the second quarter was due primarily to compensation expense of $2.3 million (including $0.3 million of share-based compensation), depreciation and amortization of $1.8 million, and computer related and software development expense of $1.4

million. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets.

Excluding share-based compensation and amortization of acquisition-related intangible assets, both of which are non-cash expenses, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the second quarter of 2014 was $4.3 million, or $0.10 per basic and diluted share, compared to an adjusted net loss of $3.8 million, or $0.18 per basic and diluted share, in the second quarter of 2013.

Cash used in operating activities totaled $5.8 million in the second quarter of 2014, compared to $4.1 million in the second quarter of 2013. Cash and cash equivalents totaled $36.0 million as of June 30, 2014. In May 2014, the Company successfully closed a follow-on public offering of common stock. The offering, including a partial exercise by the underwriters of their over-allotment option, resulted in approximately $39.5 million of net proceeds after underwriting discounts and transaction expenses. In addition, the Company repaid the $1.0 million drawn under its two $3.75 million revolving promissory notes, both of which were subsequently terminated during the quarter.

Key Operating Metrics

- ACV totaled $5.45 million at the end of the second quarter of 2014, an increase of 4.2% from $5.23 million at the end of the first quarter of 2014 and 219% from $1.71 million year-over-year. ACV is a non-GAAP measure and represents the estimated contract value of subscription payments payable to the Company during the next twelve months (or, in the case of subscription contracts where the remaining contract term is less than twelve months, the remaining value of such contracts) pursuant to subscription contracts existing at the end of the quarter for which Annual Contract Value is reported, including contracts pursuant to which the Company is currently generating no revenue because its product has not yet been deployed to the customer. For more information about ACV, see "About Annual Contract Value" below.

- Liquid had 130 customers as of June 30, 2014, consisting of 97 customers contributing to GAAP revenue and 33 customers under contract and expected to contribute to future GAAP revenue. This compares to 119 customers as of March 31, 2014 consisting of 76 customers contributing to GAAP revenue and 43 customers under contract and expected to contribute to future GAAP revenue, and 30 customers as of June 30, 2013 consisting of 23 customers contributing to GAAP revenue and 7 customers under contract and expected to contribute to future GAAP revenue.

- Total software units rose to 785 units representing 679 units deployed and 106 units under contract as of June 30, 2014, an increase of 3% from a

> total of 762 units (629 units deployed and 133 units under contract) as of March 31, 2014, and an increase of 87% from a total of 420 units (385 units deployed and 35 units under contract) as of June 30, 2013.
>
> **Recent Business Highlights**
>
> The Company signed a joint marketing agreement with ConvergEx Prime Services LLC, the prime services division of ConvergEx Group LLC. Under the agreement, ConvergEx Prime Services will offer the Liquid platform as an option to its broad portfolio of prime brokerage clients, and Liquid will refer its clients to ConvergEx for prime brokerage services.
>
> Liquid won the 2014 Hedgeweek USA Award for Best U.S. Risk Management Software, reflecting the platform's real-time risk capabilities, which allow clients to actively monitor analytics, P&L, and performance across multiple asset classes, portfolios, and fund structures, all from a single cloud-based solution.
>
> The Company won the 2014 FTF News Technology Innovation Awards in the categories of *Best Cloud Provider* and *Best Fin Tech Ops Start-Up*, honoring Liquid for offering the highest levels of reliability, security and adaptability and for demonstrating capabilities for rapid implementations and a robust data warehouse for its clients, as well as recognizing Liquid as a financial technology start-up that has devised innovative technology or services enabling end-users to differentiate themselves in the market.
>
> In July, Liquid was selected to join the Russell Microcap® Index. Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies. Russell calculates more than 700,000 benchmarks daily covering approximately 98 percent of the investable market globally, 80 countries and more than 10,000 securities.

48. On August 14, 2014, Liquid filed its Quarterly Report with the SEC on Form 10-Q for the quarterly period ended June 30, 2014. The Company's Form 10-Q was signed by Defendant Shifrin, and reaffirmed the Company's financial results previously announced on July 31, 2014. The Form 10-Q contained certifications pursuant to SOX, signed by defendants Storms and Shifrin, substantially similar to the certifications described in ¶40, *supra*.

49. The above statements contained in ¶¶35-48 were materially false and/or misleading when made because Defendants failed to disclose: (1) that the Company was overstating its ability to generate customers; (2) that the Company's business model was

unsustainable; (3) that the financial condition of the Company's main and largest customer, QuantX, was deteriorating; (4) that, as a result, the Company's financial results and operating metrics were overstated; (5) that, as such, the Company's financial statements were not prepared in accordance with GAAP; (6) that the Company lacked adequate internal controls; (7) and that, as a result of the foregoing, the Company's financial statements and Defendants' statements about Liquid's business, operations, and prospects, were materially false and misleading at all relevant times.

50. On October 30, 2014 Liquid issued a press release entitled, "Liquid Holdings Group Reports Third Quarter 2014 Results." Therein, the Company, in relevant part, stated:

> **Financial Highlights for the Third Quarter of 2014**
>
> - Software services revenue increased 103% year-over-year to $1.5 million
> - Basic and diluted loss per share of $(0.13)
> - Non-GAAP adjusted basic and diluted loss per share of $(0.09)
> - Annual Contract Value ("ACV") rose 56% to $5.0 million at September 30, 2014 as compared to September 30, 2013
> - Total contracted software units rose 38% from September 30, 2013 to 781 units
>
> "The third quarter was a transitional period for Liquid. We took a number of actions focused on building a stronger foundation to position the Company for long-term growth. These include strengthening our ability to successfully compete and win larger, independent fund managers, which provide more stability and offer a larger total revenue opportunity," said Brian Storms, CEO of Liquid. "In addition, we continued to create operational efficiencies to reduce cash burn and maintain a strong balance sheet position. As part of this effort, we reduced the size of our early operating team. We also appointed Peter Kent as CFO, to help lead Liquid's finance organization in the next phase of the Company's growth strategy. Peter brings extensive financial management and leadership experience, specifically in the electronic trading services industry, and is a strong addition to our executive team. Lastly, we recently rolled out the beta launch of LiquidMobile℠, our mobile solution providing real-time performance and risk analytics for fund managers and investors."

Third Quarter 2014 Results

Software services revenue increased during the third quarter of 2014 to $1.5 million, or 103%, from $0.7 million in the third quarter of 2013. Net loss for the third quarter of 2014 improved to $8.1 million, or $0.13 per basic and diluted share, compared to a net loss of $12.2 million, or $0.52 per basic and diluted share, in the third quarter of 2013. The net loss for the third quarter was due primarily to compensation expense of $3.4 million (including $1.1 million of share-based compensation), depreciation and amortization of $1.8 million, and computer-related and software development expense of $1.4 million. Depreciation and amortization was predominantly for amortization of acquisition-related intangible assets.

Excluding share-based compensation and amortization of acquisition-related intangible assets, both of which are non-cash expenses, as well as the related income tax effect of each, on a non-GAAP basis, adjusted net loss for the third quarter of 2014 was $5.3 million, or $0.09 per basic and diluted share based on a weighted average share count of 60.1 million, compared to an adjusted net loss of $4.3 million, or $0.18 per basic and diluted share based on a weighted average share count of 23.5 million, in the third quarter of 2013.
Cash used in operating activities totaled $5.7 million in the third quarter of 2014, compared to $2.7 million in the third quarter of 2013. Cash and cash equivalents totaled $30.1 million as of September 30, 2014.

Key Operating Metrics

- ACV totaled $5.0 million at the end of the third quarter of 2014. This compares to $5.5 million at the end of the second quarter of 2014 and $3.2 million at the end of the third quarter of 2013. ACV is a non-GAAP measure and represents the estimated contract value of subscription payments payable to the Company during the next twelve months (or, in the case of subscription contracts where the remaining contract term is less than twelve months, the remaining value of such contracts) pursuant to subscription contracts existing at the end of the quarter for which Annual Contract Value is reported, including contracts pursuant to which the Company is currently generating no revenue because its product has not yet been deployed to the customer. For more information about ACV, see "About Annual Contract Value" below.

- Liquid had 129 customers as of September 30, 2014, consisting of 95 customers contributing to GAAP revenue and 34 customers under contract and expected to contribute to future GAAP revenue. This compares to 130 customers as of June 30, 2014 consisting of 97 customers contributing to GAAP revenue and 33 customers under contract and expected to contribute to future GAAP revenue, and 48 customers as of September 30,

> 2013 consisting of 27 customers contributing to GAAP revenue and 21 customers under contract and expected to contribute to future GAAP revenue.

> - Total software units as of September 30, 2014 were 781 units representing 670 units deployed and 111 units under contract. This compares to a total of 785 units (679 units deployed and 106 units under contract) as of June 30, 2014 and a total of 565 units (455 units deployed and 110 units under contract) as of September 30, 2013.

51. On this news, shares of Liquid declined $0.25 from $0.98 per share at close on October 29, 2014, to $0.73 at close on October 30, 2014, a more than 25% drop, on unusually heavy volume.

52. On November 14, 2014, Liquid filed its Quarterly Report with the SEC on Form 10-Q for the quarterly period ended September 30, 2014. The Company's Form 10-Q was signed by Defendant Kent, and reaffirmed the Company's financial results previously announced on October 30, 2014. The Form 10-Q contained certifications pursuant to SOX, signed by defendants Storms and Kent, substantially similar to the certifications described in ¶40, *supra*.

53. The above statements contained in ¶¶50, 52 were materially false and/or misleading when made because Defendants failed to disclose: (1) that the Company was overstating its ability to generate customers; (2) that the Company's business model was unsustainable; (3) that the financial condition of the Company's main and largest customer, QuantX, was deteriorating; (4) that, as a result, the Company's financial results and operating metrics were overstated; (5) that, as such, the Company's financial statements were not prepared in accordance with GAAP; (6) that the Company lacked adequate internal controls; (7) and that, as a result of the foregoing, the Company's financial statements and Defendants' statements about Liquid's business, operations, and prospects, were materially false and misleading at all relevant times.

Disclosures at the End of the Class Period

54. On December 23, 2014, after the market closed, the Company filed a Current Report on Form 8-K. Therein, in relevant part, the Company disclosed:

> As previously disclosed in the Company's 8-K dated December 23, 2014 (the "December 23 8-K"), the Company has notified QuantX Management, LLP (together with its affiliates, "QuantX") that QuantX is delinquent in payments owed to the Company in the aggregate amount of approximately $1.4 million pursuant to two technology services agreements and approximately $325,000 in additional delinquent payments, and has demanded that QuantX pay such amounts owing to the Company immediately. As also previously disclosed in the December 23 8-K, Liquid has also separately delivered a notice to QuantX declaring the unpaid principal amount of a term note and related obligations in the aggregate amount of approximately $244,000 owed by QuantX to Liquid to be immediately due and payable as a result of the failure to make timely payments of principal and interest to Liquid in accordance with the terms of the note.
>
> As of January 7, 2015, the Company has not received any payment from QuantX in response to the demand letters it issued. While Liquid has not received any formal communication from QuantX as to its status, Liquid's discussions with QuantX representatives indicate that QuantX is in the process of winding down and has limited operating cash left. Based on these discussions, Liquid believes that QuantX may not have the financial means to satisfy its obligations to the Company, and at this time expects that it may need to write off all or a significant portion of these obligations, which in the aggregate total approximately $2 million. The Company, with the assistance of counsel, intends to take appropriate steps in an effort to collect these obligations, although there can be no assurance that the Company will be successful in doing so.

55. On this news, shares of Liquid declined $0.34 from $0.74 per share at close on December 23, 2014, to $0.40 at close on December 24, 2014, a nearly 46% drop, on unusually heavy volume.

56. Thereafter, on September 16, 2015, the Company filed a Current Report with the SEC on Form 8-K disclosing that an internal investigation had uncovered the use of improper accounting practices involving the Company's improper recognition of revenue, and that the Company would be restating its Quarterly Report for the period ended September 30, 2014. Therein, the Company, in relevant part, disclosed:

> As previously reported, the Audit Committee (the "Audit Committee") of the Board of Directors (the "Board") of Liquid Holdings Group, Inc. (the "Company"), with the assistance of outside legal counsel, has conducted an investigation (the "Investigation") into certain issues raised by counsel to one of the Company's stockholders, including allegations about the Company's former senior management. Based on the Investigation's findings and upon the recommendation of the Company's executive officers, on September 10, 2015, the Audit Committee and the Board concluded that the Company's previously issued unaudited condensed consolidated financial statements as of September 30, 2014 and for the three and nine months ended September 30, 2014 (the "Restatement Periods") should no longer be relied upon and should be restated (the "Restatement") due to certain accounting errors. The accounting errors involve the premature recognition of revenue from QuantX Management, LLP (together with its affiliates, "QuantX") and from other customers of the Company that had received allocations of capital from QuantX ("QuantX-related Customers") during the quarter ended September 30, 2014, before collectability was reasonably assured, given the significance of the uncertainty of collections from QuantX and QuantX-related Customers that became known to certain members of management during June 2014.
>
> Accordingly, investors should no longer rely upon the Company's previously filed financial statements and other financial data for the Restatement Periods or any press releases or other communications that relate to that information. The Company intends to present the restated financial statements and other financial data reflecting the Restatement in an amended and restated Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the "Amended Form 10-Q")

LIQUID'S VIOLATION OF GAAP RULES
IN ITS FINANCIAL STATEMENTS
<u>FILED WITH THE SEC</u>

57. These financial statements and the statements about the Company's financial results were false and misleading, as such financial information was not prepared in conformity with GAAP, nor was the financial information a fair presentation of the Company's operations due to the Company's improper recording of revenue, in violation of GAAP rules.

58. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be

misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

59. The fact that Liquid announced that it intends to restate certain of its financial statements, and informed investors that these financial statements should not be relied upon is an admission that they were false and misleading when originally issued (APB No.20, 7-13; SFAS No. 154, 25).

60. Given these accounting irregularities, the Company announced financial results that were in violation of GAAP and the following principles:

(a) The principle that "interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements" was violated (APB No. 28, 10);

(b) The principle that "financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit, and similar decisions" was violated (FASB Statement of Concepts No. 1, 34);

(c) The principle that "financial reporting should provide information about the economic resources of Liquid, the claims to those resources, and effects of transactions, events, and circumstances that change resources and claims to those resources" was violated (FASB Statement of Concepts No. 1, 40);

(d) The principle that "financial reporting should provide information about Liquid's financial performance during a period" was violated (FASB Statement of Concepts No. 1, 42);

(e) The principle that "financial reporting should provide information about how management of Liquid has discharged its stewardship responsibility to owners (stockholders) for the use of Liquid resources entrusted to it" was violated (FASB Statement of Concepts No. 1, 50);

(f) The principle that "financial reporting should be reliable in that it represents what it purports to represent" was violated (FASB Statement of Concepts No. 2, 58-59);

(g) The principle that "completeness, meaning that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions" was violated (FASB Statement of Concepts No. 2, 79); and

(h) The principle that "conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered" was violated (FASB Statement of Concepts No. 2, 95).

61. The adverse information concealed by Defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. §229.303).

CLASS ACTION ALLEGATIONS

62. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all those who purchased or otherwise acquired Liquid securities: (1) pursuant and/or traceable to the Company's Registration Statement and Prospectus issued in connection with the Company's IPO on or about July 26, 2013, seeking to pursue remedies under the Securities Act; and/or (2) between July 26, 2013 and December 23, 2014, inclusive, seeking to pursue remedies under the Exchange Act;

and were damaged thereby (collectively, the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

63. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Liquid's securities were actively traded on the Nasdaq Stock Market (the "NASDAQ"). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Millions of Liquid shares were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by Liquid or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

64. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

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

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

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of Liquid ; and

(c) whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

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

UNDISCLOSED ADVERSE FACTS

68. The market for Liquid's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, Liquid's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Liquid's securities relying upon the integrity of the market price of the Company's securities and market information relating to Liquid, and have been damaged thereby.

69. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Liquid's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. Said statements and omissions were materially

false and/or misleading in that they failed to disclose material adverse information and/or misrepresented the truth about Liquid's business, operations, and prospects as alleged herein.

70. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about Liquid's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

LOSS CAUSATION

71. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

72. During the Class Period, Plaintiff and the Class purchased Liquid's securities at artificially inflated prices and were damaged thereby. The price of the Company's 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.

SCIENTER ALLEGATIONS

73. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of information reflecting the true facts regarding Liquid, his/her control over, and/or receipt and/or modification of Liquid's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Liquid, participated in the fraudulent scheme alleged herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE (FRAUD-ON-THE-MARKET DOCTRINE)

74. The market for Liquid's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, Liquid's securities traded at artificially inflated prices during the Class Period. On September 17, 2013, the Company's stock closed at a Class Period high of $9.65 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of Liquid's securities and market information relating to Liquid, and have been damaged thereby.

75. During the Class Period, the artificial inflation of Liquid's stock was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about Liquid's business, prospects, and operations. These material

misstatements and/or omissions created an unrealistically positive assessment of Liquid and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company stock. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

76. At all relevant times, the market for Liquid's securities was an efficient market for the following reasons, among others:

(a) Liquid stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, Liquid filed periodic public reports with the SEC and/or the NASDAQ;

(c) Liquid regularly communicated with public investors *via* established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

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

77. As a result of the foregoing, the market for Liquid's securities promptly digested current information regarding Liquid from all publicly available sources and reflected such

information in Liquid's stock price. Under these circumstances, all purchasers of Liquid's securities during the Class Period suffered similar injury through their purchase of Liquid's securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

78. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of Liquid who knew that the statement was false when made.

COUNT I
Violation of Section 11 of The Securities Act
(Against the Section 11 Defendants)

79. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein, except any allegation of fraud, recklessness or intentional misconduct.

80. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. §77k, on behalf of the Class, against the Section 11 Defendants.

81. The Registration Statement for the IPO was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein.

82. Liquid is the registrant for the IPO. The Section 11 Defendants named herein were responsible for the contents and dissemination of the Registration Statement.

83. As issuer of the shares, Liquid is strictly liable to Plaintiff and the Class for the misstatements and omissions.

84. None of the Section 11 Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

85. By reasons of the conduct herein alleged, each Section 11 Defendant violated, and/or controlled a person who violated Section 11 of the Securities Act.

86. Plaintiff acquired Liquid shares pursuant and/or traceable to the Registration Statement for the IPO.

87. Plaintiff and the Class have sustained damages. The value of Liquid common stock has declined substantially subsequent to and due to the Section 11 Defendants' violations.

COUNT II
Violation of Section 15 of The Securities Act
(Against the Section 11 Individual Defendants)

88. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein, except any allegation of fraud, recklessness or intentional misconduct.

89. This count is asserted against the Section 11 Individual Defendants and is based upon Section 15 of the Securities Act.

90. The Section 11 Individual Defendants, by virtue of their offices, directorship, and specific acts were, at the time of the wrongs alleged herein and as set forth herein, controlling persons of Liquid within the meaning of Section 15 of the Securities Act. The Section 11 Individual Defendants had the power and influence and exercised the same to cause Liquid to engage in the acts described herein.

91. The Section 11 Individual Defendants' positions made them privy to and provided them with actual knowledge of the material facts concealed from Plaintiff and the Class.

92. By virtue of the conduct alleged herein, the Section 11 Individual Defendants are liable for the aforesaid wrongful conduct and are liable to Plaintiff and the Class for damages suffered.

COUNT III
Violation of Section 10(b) of The Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Company and the Individual Defendants

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

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

95. 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 Liquid's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

96. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about Liquid's financial well-being and prospects, as specified herein.

97. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Liquid's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about Liquid and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

98. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and

participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

99. The defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Liquid's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

100. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of Liquid's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of

the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired Liquid's securities during the Class Period at artificially high prices and were damaged thereby.

101. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that Liquid was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Liquid securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

102. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

103. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

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

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

105. The Individual Defendants acted as controlling persons of Liquid 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.

106. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is 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.

107. As set forth above, Liquid and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or 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 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.

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

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

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, 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.

DATED: September 21, 2015

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JURY TRIAL DEMAND

Plaintiff demands a jury trial for all claims so triable.

DATED: September 21, 2015