

# EXHIBIT B

## FINRA DISPUTE RESOLUTION - ARBITRATION

ARNOLD CHASE FAMILY, LLC;  
CHASE ENTERPRISES HOLDINGS, LLC; : ARBITRATION NO.: 08-01117  
CHERYL CHASE FAMILY, LLC;  
DTC FAMILY INVESTMENTS, LLC;  
THE CHERYL ANNE CHASE GRANTOR  
TRUST, AND THE DARLAND TRUST

Claimants,

V.

UBS AG; UBS SECURITIES, LLC; : MAY 21, 2008  
AND UBS FINANCIAL SERVICES, INC.

Respondents.

### **AMENDED STATEMENT OF CLAIM** (As of Right)

#### **General Allegations**

1. Each of the claimants is an entity with its office or place of business in Hartford, Connecticut.
2. Each of the claimants presently maintains an account with UBS and did at all times relevant hereto and with its predecessor Paine Webber (hereinafter referred to as "PW"), which upon information and belief was acquired by the respondents.
3. The respondent, UBS AG is a Swiss corporation headquartered in Zurich and Basil, Switzerland. UBS AG is a financial firm and does business in the United States through its subsidiaries UBS Securities LLC and UBS Financial Services Inc.

4. Respondent UBS Securities LLC (“UBS Securities”) is incorporated in Delaware and its principal executive offices are located in New York, New York. UBS Securities, a wholly-owned subsidiary of UBS AG, is registered with the SEC as a broker-dealer pursuant to Section 15(b) of the Exchange Act and is a member of the New York Stock Exchange (“NYSE”) and the Financial Industry Regulatory Authority (“FINRA”). Respondent UBS Financial Services Inc. (“UBS Financial Services”) is incorporated in Delaware and its principal executive offices are located in New York, New York. UBS Financial Services, a wholly-owned subsidiary of UBS AG, is registered with the SEC as a broker-dealer and investment adviser pursuant to the Exchange Act and the Investment Advisers Act of 1940, and offers investment advisory and brokerage services to UBS clients.

5. Unless specifically noted, “UBS” refers collectively to respondents UBS AG, UBS Securities and UBS Financial Services.

6. In August 1999 the claimants were approached by PW representatives to invest in auction rate securities (hereinafter referred to as “ARS”). The ARS were represented to be 90 to 95% guaranteed by the Federal government with an interest yield in excess of Treasury Bills and money market funds; that they were the equivalent or alternative to cash; that they were liquid and that the principal would easily be returned to the customer, the claimants; that PW operates the auction in a multi-million dollar market in which the ARS can be purchased and sold. It was based on those representations that the claimants agreed to invest funds from time to time in ARS. Those representations were repeated from time to time in form and substance as there

were ongoing purchases and sales of ARS including \$50 million dollars in mid 2007 invested therein.

7. As referenced aforesaid, UBS acquired PW which included the accounts maintained by claimants in which ARS has served as an alternative to cash.

8. PW and UBS were each one of the primary market makers in ARS, upon information and belief.

9. Recently, the ARS auctions have failed and UBS is no longer supporting the ARS.

10. Claimants have demanded return of their investments plus interest but the respondents have failed and neglected to return same.

11. As of this date, each claimant has invested the following principal in ARS:

Arnold Chase Family, LLC	\$ 1,250,000.00
Chase Enterprise Holdings, LLC	\$57,225,000.00
Cheryl Chase Family LLC	\$ 425,000.00
DTC Family Investments, LLC	\$ 1,350,000.00
The Cheryl Anne Chase Grantor Trust	\$ 5,250,000.00
The Darland Trust	<u>\$ 8,875,000.00</u>
<b>TOTAL</b>	<b>\$74,375,000.00</b>

12. The term "auction rate security" typically refers to either municipal or corporate debt securities or preferred stocks which pay interest at rates set and reset at periodic "auctions". Auction rate securities generally have long-term maturities.

13. Auction rate securities were auctioned at par value, so the return on the investment to the investors and the cost of financing to the issuer were determined by the interest rate or dividend yield set through the auction.

14. Generally, the auctions were held every 7, 28, or 35 days, depending on security involved with interest paid at the end of the auction period.

15. At the end of the auction, the rate at which all of the securities were sold was set uniformly and was called the "clearing rate". The clearing rate was determined by finding the lowest rate bid which was sufficient to cover all of the securities for sale in the auction. If several bidders had bids at the clearing rate and there were more bids than securities, the securities were divided pro-rata between the clearing rate bidders. The auction agent, at the end of the auction, allocated the shares per the formula. If all of the current holders decided to hold their securities, then the auction was an "all-hold" auction and the rate was set at a level defined in the securities prospectus. This rate was generally lower than the market rate.

16. During an auction, an investor could submit one of four different orders: (1) a Hold order to keep the securities out of the auction regardless of the new interest rate; (2) a Hold at Rate order, where if the clearance rate was below the bid to hold rate, then the securities were sold; (3) a Sell order, which was to sell the securities at the auction regardless of the clearing rate; and (4) a Bid order, to submit a bid to buy at a new position at a specified minimum interest rate. Since there was no preference in awarding securities to existing holders and new buyers, there was little practical difference between a Hold at Rate order and a Buy order.

17. If there were not enough orders to purchase all the securities being sold at the auction, a failed auction occurred. In this situation, the rate was set to a “maximum rate” described by either a formula or a multiplier of a reference rate, such as the Bond Market Association index. Either way, the maximum rate was set out in the securities prospectus which were never provided to claimants. If the auction failed then none of the current securities holders could sell their securities, no matter what type of order they issued. The maximum rate for many auction rate securities was relatively small. As a result, if the auction failed, owners now are advised that they are unable to sell their securities making the securities illiquid investments. Claimants were never advised of the aforesaid risks.

18. The issuer of each auction rate security selected one or more broker-dealers to underwrite the offering and to manage the auction process. Investors could only submit orders through the selected broker-dealers. The issuer paid an annualized fee to each broker-dealer engaged to manage an auction.

19. Investors were required to submit an order to the broker-dealer by a deadline set by the broker-dealer. This deadline was generally set early enough by the broker-dealer so that it had to time to process and analyze the orders before having to submit the orders to the auction agent. This gave the broker-dealer enough time to determine what, if any, orders the broker-dealer wished to place for its own account.

20. Brokers-dealers would often engage in a number of practices to influence the auction process, including, for example, submitting their own orders to purchase or sell securities for their own accounts to maintain liquidity, as they claimed the

investments were liquid to claimants. The aforesaid practice was never disclosed to claimants.

21. Auction rate securities were extremely profitable for UBS and for the UBS financial advisors who sold the securities. As one of the largest underwriters of auction rate securities, UBS received significant underwriting fees from the issuers of these securities. As one of the largest broker-dealers, UBS also entered into broker-dealer agreements with the issuers and was paid an annualized broker-dealer fee for operating the auction process for more than auction rate securities. UBS also acted as a principal for its own account, using its access to inside information about the auction process to buy and sell auction rate securities for its own account. Individual UBS financial advisors had a significant financial incentive to sell auction rate securities, as they were compensated by UBS for each auction rate security sold. These conflicts were never disclosed to claimants.

22. As alleged above, in order to perpetuate the auction market and sell as many auction rate securities as possible, UBS represented that auction rate securities were an alternative to cash and were highly liquid, safe investments for short-term investing.

23. UBS failed to disclose to claimants material facts about these securities. UBS failed to disclose that these securities were not cash alternatives or like money market funds, and were instead, complex, long-term financial instruments with 30 year maturity dates or longer and the liquidity of which was not assured. UBS failed to disclose that at all relevant times, the ability of claimants to liquidate their positions

depended on the participation by UBS in the auctions. When UBS stopped supporting the auctions, the market collapsed and the auction rate securities sold by UBS to claimants became illiquid. Further, UBS failed to disclose that the ability of claimants to quickly convert their auction rate securities into cash depended at least in part on the auction market being maintained by UBS. This was particularly true since the default rates of the ARS purchased for claimants' accounts were less than the purported market rates.

24. UBS also failed to disclose to claimants material facts about its role in the auctions and the auction market in which these securities were traded. UBS failed to disclose that in connection with the sale of auction rate securities, UBS simultaneously was acting on behalf of the issuer, who had an interest in paying the lowest possible interest rate, on behalf of the investor, who was seeking the highest possible return, and on its own behalf, to maximize the return to UBS on its holdings of the auction rate securities. UBS failed to disclose that without its routine intervention of the auction market, auctions likely would have failed, as a result of which investors would have lost the liquidity of auction rate securities. UBS continued to aggressively market auction rate securities to claimants even after it knew or should have known that it and other broker dealers might withdraw their support for the auctions and that a "freeze" of the market for auction rate securities would result.

25. UBS failed to disclose that the auctions it was conducting were not governed by arms-length transactions but instead, included allowing customers to place open or market orders in auctions, intervening in auctions by bidding for UBS's proprietary



account or asking customers to make or change orders, preventing failed auctions and all-hold auctions to set the market rate, submitting or changing orders after auction deadlines, not requiring customers to purchase partially-filled irrevocable orders, providing certain customers with higher returns than the auction clearing rate, and providing inside information about the auction process to certain customers in connection with the auction bidding.

26. In the summer of 2007, some auctions for auction rate securities backed by sub-prime debt began to fail, which UBS failed to disclose to claimants and which was unknown to claimants particularly as to its effect as to their ARS holdings. Even though some of the auctions that failed initially were conducted by UBS, it continued to encourage claimants to purchase auction rate securities and continued to represent to claimants that these securities were alternatives to cash or money markets and were highly liquid, safe investments for short-term investing, without any disclosure of the risks associated with the securities.

27. On February 13, 2008, 875 of all auctions of auction rate securities failed when all of the major broker-dealers, including UBS, refused to continue to support the auctions.

28. That same day, UBS notified its 8,200 brokers and investment advisors that UBS was no longer supporting the auction market for auction rate securities.

29. As a result of the materially false and misleading statements and failures to disclose, auction rate securities sold by UBS traded at artificially inflated prices. During the relevant time herein the decisions to invest in ARS as opposed to money market

funds or treasuries were made by UBS and its representatives and the selection of which individual ARS to acquire for claimants was made by UBS, its brokers, and investment advisors. Claimants purchased and continued to hold auction rate securities sold by UBS relying upon the representations of UBS as to their safety and liquidity, and have been damaged thereby. Claimants would not have invested or continued to invest in ARS if UBS had fully disclosed all material facts. As recent as 2007, the claimants invested \$50 million dollars into the ARS market.

30. Respondents materially misled the claimants allowing the claimants to continue to invest in auction market and inflating the price of auction rate securities sold by UBS by issuing false and misleading statements and omitting to disclose material facts necessary to make respondents' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the auction market and the auction rate securities sold by UBS, as alleged herein.

31. 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 claimants. Respondents' materially false and misleading statements resulted in claimants purchasing and continuing to hold auction rate securities sold by UBS at artificially inflated prices, thus causing the damages complained of herein. In fact if claimants were advised of the material facts not disclosed, claimants would not have invested in ARS at all.

32. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pled in this statement of claim. The statements pled herein were not identified as “forward-looking statements” when made. To the extent there were any forwarding-looking statements, there were no meaningful cautionary statements identifying important facts that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pled herein, respondents are liable for those false-looking forward-looking statements because at the time each of those forward-looking statements were made, respondents’ representatives knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officers of UBS who knew that those statements were false when made.

33. Respondents engaged in a scheme and course of conduct in regard to auction rate securities sold by UBS that operated as a fraud or deceit on claimants by misrepresenting the liquidity of and risks associated with such securities. Respondents achieved this by making false and misleading statements about the auction market and the auction rate securities sold by UBS. As a result of their purchases of auction rate securities from UBS claimants suffered damages under the federal securities laws in that the securities have substantially less value than that represented by respondents and have deprived claimants of liquidity as to their invested funds.

34. Claimants specified said funds be invested in cash or cash alternatives and to the extent that UBS and its representatives invested claimants' funds in ARS same was unauthorized and unsuitable for claimants.

#### **COUNT ONE**

1-34. Claimants repeat and reallege each and every allegation set forth in the paragraphs above as if fully set forth herein.

35. Respondents carried out a plan, scheme and course of conduct which was intended to (i) deceive the claimants; (ii) enable respondents to sell millions of dollars of auction rate securities to claimants on account of which UBS made substantial commissions; and (iii) cause claimants to purchase auction rate securities from UBS. In furtherance of this unlawful scheme, plan and course of conduct, respondents jointly and individually took the actions set forth herein.

36. Respondents (a) employed devices, schemes, and artifices to defraud claimants; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading to claimants; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon claimants for such securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All respondents are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

37. Respondents 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 the auction rate securities sold by UBS, as specified herein.

38. These respondents employed devices, schemes and artifices to defraud claimants 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 claimants that the auction rate securities sold by UBS were an alternative to cash and were highly liquid, safe short-term investment vehicles suitable for claimants, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about the auction rate securities in the 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 claimants.

39. The respondents had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with deliberate disregard for the truth in that they failed to ascertain and to disclose such facts to claimants. Such respondents' material misrepresentations and/or omissions were done knowingly or deliberately and for the purpose and effect of concealing the truth about the liquidity of and risks associated with auction rate securities from the investing public. If respondents did not have actual knowledge of the misrepresentations and omissions alleged, they were deliberate in failing to obtain such knowledge by deliberately

refraining from taking those steps necessary to discovery whether those statements were false or misleading.

40. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market and market price of the auction rate securities sold by UBS was not liquid and cash alternatives. In relying directly or indirectly on the false and misleading statements made by respondents and/or on the absence of material adverse information that was known to or deliberately disregarded by respondents but not disclosed to claimants by respondents, claimants acquired from time to time ARS and then continued to hold auction rate securities sold by UBS and were damaged thereby.

41. At the time of said misrepresentations and omissions, claimants were ignorant of their falsity and believed them to be true. Had claimants known the truth regarding the liquidity of and risks associated with the auction rate securities sold by UBS, which were not disclosed by respondents, claimants would never have purchased and continued to hold their auction rate securities.

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

43. As a direct and proximate result of respondents' wrongful conduct, claimants suffered damages in connection with their respective purchases of auction rate securities sold by UBS.

## **COUNT TWO**

1.-34. Claimants repeat and reallege each and every allegation set forth in the paragraphs above as if fully set forth herein.

35. Respondents UBS AG acted as a control person of respondent UBS Securities and UBS Financial Services within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of its 100% ownership of UBS Securities and UBS Financial Services, UBS AG had the power to influence and control and did influence and control, directly or indirectly, the decision-making by UBS Securities and UBS Financial Services including the content and dissemination of the various statements which claimants contend are false and misleading. UBS AG was provided with or had access to the truth about the ARS and the ARS market and had the ability to prevent the issuance of the statements or cause the statements to be corrected and had the ability to advise claimants not to further invest in said ARS and to sell their then currently held ARS.

36. As set forth above, UBS Securities and UBS financial Services violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this complaint. By virtue of its position as a controlling person, UBS AG is liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of respondents' wrongful conduct, claimants suffered damages in connection with their purchase and retention of auction rate securities from UBS AG.

### **COUNT THREE**

1.-34. Claimants repeat and reallege each and every allegation set forth in the paragraphs above as if fully set forth herein.

35. The respondents were guilty of negligence and carelessness in providing the advice to the claimants that ARS were an alternative to cash, safe liquid and were 90 to 95% guaranteed. Further, the defendants were negligent and careless in omitting to warn the claimants of the real risks in regard to the ARS market, to timely advise the claimants to withdraw from the ARS market, in investing substantial funds of claimants' as recent as 2007 in the ARS market, by failing to support to the ARS market or otherwise the ARS from claimants, all to claimants' special loss and damage.

### **COUNT FOUR**

1.-34. Claimants repeat and reallege each and every allegation set forth in the paragraphs above as if fully set forth herein.

35. The claimants dealt with respondents' office and individual broker in the Hartford Connecticut office and most if not all transactions including deposits of funds into accounts, the discussions concerning the investment of monies into the ARS, confirmation of such investments, monthly statements in regard to claimants accounts and all other daily periodic involvement between claimants and respondents occurred within the state of Connecticut. Accordingly, the claimants claim violations of C.G.S. § 36b-1 et seq. including but not limited to violations of § 36b-23, all to claimants damage for which they seek the remedies afforded under § 36b-29.



## **COUNT FIVE**

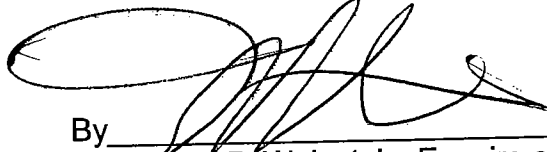
1.-34. Claimants repeat and reallege each and every allegation set forth in the paragraphs above as if fully set forth herein.

35. At all times claimants relied upon respondents investing into cash and cash alternatives which included the ARS aforesaid. At no time were claimants consulted on specific purchases or trades of ARS. Respondents had special, unique, and undisclosed information regarding the ARS market and had a fiduciary duty to claimants, which respondents breached by investing and reinvesting into the ARS market. Further, respondents were involved in self-dealing in regard to ARS, all to claimants' loss and damage.

WHEREFORE Claimants pray for:

1. Damages in an amount of approximately \$75,000,000.00;
2. Interest in an appropriate amount;
3. Reasonable costs and expenses including attorney's fees;
4. All of the remedies afforded under C.G.S. 36b-29;
5. Punitive and exemplary damages;
6. Rescission of the purchases of the ARS, together with lost interest;
7. Such other legal and equitable relief as the arbitrators deem appropriate.

CLAIMANTS

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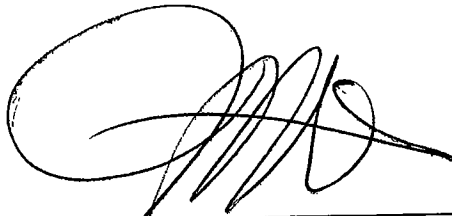
By

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**CERTIFICATION**

This is to certify that on the 21<sup>st</sup> day of May, 2008, a copy of the foregoing was served upon:

Richard C. Schoenstein, Esquire  
Kurt Hansson, Esquire  
Paul Hastings Janofsky & Walker, LLP  
Park Avenue Tower  
75 East 55<sup>th</sup> Street  
First floor  
New York, NY 10022

A handwritten signature in black ink, appearing to be 'R. Weinstein', written over a horizontal line.

Richard P. Weinstein