



**IN THE CIRCUIT COURT FOR JEFFERSON COUNTY, ALABAMA**

JEFFERSON COUNTY, ALABAMA, a )  
 political subdivision of the State of Alabama, )  
 )  
 Plaintiff, )  
 )  
 v. )  
 )  
 JPMORGAN SECURITIES, INC., a )  
 corporation; JPMORGAN CHASE BANK, )  
 NATIONAL ASSOCIATION, a national )  
 banking association; BLOUNT PARRISH & )  
 COMPANY, a corporation; CHARLES E. )  
 LECROY, an individual; DOUGLAS W. )  
 MACFADDIN, an individual; LARRY P. )  
 LANGFORD, an individual; WILLIAM B. )  
 BLOUNT, an individual; ALBERT W. )  
 LAPIERRE, an individual; DEFENDANTS 1 )  
 THROUGH 10, BEING THOSE PERSONS, )  
 FIRMS OR CORPORATIONS, WHOSE )  
 NAMES ARE PRESENTLY UNKNOWN )  
 BUT WILL BE ADDED LATER BY )  
 AMENDMENT WHEN ASCERTAINED, )  
 WHO ARE THE TRUE AND CORRECT )  
 NAMES FOR THE DEFENDANTS LISTED )  
 ABOVE; DEFENDANTS 11 THROUGH 20, )  
 BEING THOSE PERSONS, FIRMS OR )  
 CORPORATIONS, WHOSE NAMES ARE )  
 PRESENTLY UNKNOWN BUT WILL BE )  
 ADDED LATER BY AMENDMENT )  
 WHEN ASCERTAINED, WHO )  
 CONSPIRED OR OTHERWISE )  
 PARTICIPATED WITH OTHER )  
 DEFENDANTS TO COMMIT THE ACTS )  
 ALLEGED IN THIS COMPLAINT; )  
 DEFENDANTS 21 THROUGH 30, BEING )  
 THOSE PERSONS, FIRMS OR )  
 CORPORATIONS, WHOSE NAMES ARE )  
 PRESENTLY UNKNOWN BUT WILL BE )  
 ADDED LATER BY AMENDMENT )  
 WHEN ASCERTAINED, WHO )  
 FRAUDULENTLY CONCEALED AND )  
 SUPPRESSED FROM THE KNOWLEDGE )  
 OF JEFFERSON COUNTY THE )

CIVIL ACTION NUMBER:  
CV-2009-\_\_\_\_\_

PAYMENTS DESCRIBED HEREIN; )  
 DEFENDANTS 31 THROUGH 40, BEING )  
 THOSE PERSONS, FIRMS OR )  
 CORPORATIONS, WHOSE NAMES ARE )  
 PRESENTLY UNKNOWN BUT WILL BE )  
 ADDED LATER BY AMENDMENT )  
 WHEN ASCERTAINED, WHO )  
 BENEFITED FROM OR OTHERWISE )  
 UNLAWFULLY ENRICHED BY THE )  
 ACTIVITIES SET FORTH IN THIS )  
 COMPLAINT; and DEFENDANTS 41 )  
 THROUGH 50, BEING THOSE PERSONS, )  
 FIRMS OR CORPORATIONS, WHOSE )  
 NAMES ARE PRESENTLY UNKNOWN )  
 BUT WILL BE ADDED LATER BY )  
 AMENDMENT WHEN ASCERTAINED, )  
 WHO SUPERVISED OR DIRECTED THE )  
 ACTIVITIES OF OTHER DEFENDANTS )  
 NAMED HEREIN, )  
 )  
 )  
 Defendants. )

**COMPLAINT**

Jefferson County, Alabama (the “County”), a political subdivision of the State of Alabama, for its complaint against all Defendants, states as follows:

**I. INTRODUCTION**

1. This is a suit for fraud and fraudulent suppression, conspiracy, and unjust enrichment against those who have brought the County and its citizens to the brink of financial disaster while lining their own pockets. JPMorgan Securities, Inc. (“JPMorgan”) was the lead underwriter for a series of refinancings of the County’s sewer debt. JPMorgan Chase Bank, NA (“JPMorgan Chase”) was the swap counter-party in related interest rate swaps. The real purpose of these transactions was to generate hundreds of millions of dollars in fees and interest payments for JPMorgan and JPMorgan Chase. These transactions provided no value to the

County or its citizens and created an inherently flawed financial structure that imploded within just a few years.

2. Charles E. LeCroy and Douglas W. MacFaddin were managing directors of JPMorgan, with responsibility for JPMorgan's transactions with the County. Through LeCroy, MacFaddin, and Blount Parrish & Company ("Blount Parrish"), JPMorgan funded a series of payments to entice the County to purchase ruinous financial products and services. JPMorgan then rewarded LeCroy and MacFaddin with huge bonuses, and JPMorgan rewarded Blount Parrish with huge cash payments.

3. JPMorgan procured this lucrative Jefferson County business by arranging payments to Blount Parrish. Blount Parrish, through its principal, William B. Blount, and its agent, Albert W. LaPierre, conspired with former Commission President Larry P. Langford to direct County business to JPMorgan. The conspiracy involved the payment of cash, clothes, and jewelry to Langford.

4. The illicit activities described herein placed the County in an untenable, unwarranted, and ultimately disastrous financial situation, which has resulted in substantial damages to the County.

## **II. PARTIES, JURISDICTION, AND VENUE**

5. Jefferson County, Alabama, is a political subdivision of the State of Alabama.

6. JPMorgan Securities, Inc. is a corporation organized under the laws of the State of Delaware, with its principal place of business in New York, New York. JPMorgan served as the manager or co-manager of seven sewer warrant underwritings for Jefferson County between

2001 and 2003, and employed both LeCroy and MacFaddin as managing directors in the time frame relevant to this complaint. On November 4, 2009, the Securities and Exchange Commission (the “SEC”) censured JPMorgan as a result of some of the conduct alleged in this complaint.

7. JPMorgan Chase Bank, NA is a national banking association with its principal place of business in Columbus, Ohio. JPMorgan Chase served as the swap counter-party in eight interest rate swap transactions with the County in the time frame relevant to this complaint. JPMorgan Chase sold these interest rate swap transactions to the County and, upon information and belief, received substantial fees and unreasonable pricing terms favorable to itself as a result of the actions described in this complaint.

8. Blount Parrish & Company is a corporation organized under the laws of the State of Alabama, with its principal place of business in Montgomery, Alabama. Blount Parrish was paid millions of dollars in connection with offerings of Jefferson County’s sewer warrants and related interest rate swap transactions during the time frame relevant to this complaint. These payments were made to Blount Parrish as part of the scheme to funnel Jefferson County business to JPMorgan, as described in this complaint. Upon information and belief, JPMorgan incorporated these payments into the price Jefferson County paid for these transactions.

9. Charles E. LeCroy is an individual residing, on information and belief, in Winter Park, Florida. LeCroy was previously employed as a managing director at JPMorgan, where he was responsible for JPMorgan’s municipal bond business in the Southeast Region. LeCroy was responsible for orchestrating the scheme to gain Jefferson County’s business for JPMorgan through the acts described in this complaint. He implemented that scheme by arranging for

payments by JPMorgan to firms in Jefferson County and elsewhere in Alabama, and through multiple visits to Jefferson County, meetings in Jefferson County with former County officials, and telephone calls to Jefferson County concerning Jefferson County financial transactions.

10. Douglas W. MacFaddin is an individual residing, on information and belief, in Cos Cob, Connecticut. MacFaddin was previously employed as a managing director at JPMorgan, where he was head of JPMorgan's Municipal Derivatives Department at all times relevant to this complaint. With LeCroy, MacFaddin was responsible for the scheme to gain Jefferson County's business for JPMorgan through the acts described in this complaint. He implemented the scheme, upon information and belief, by arranging for payments by JPMorgan to firms in Jefferson County and elsewhere in Alabama, and through multiple visits to Jefferson County, meetings in Jefferson County with former County officials, and telephone calls to Jefferson County concerning Jefferson County financial transactions.

11. Larry P. Langford is an individual residing in Birmingham, Alabama. Langford was the President of the Jefferson County Commission from November 2002 through November 2006. On October 28, 2009, a jury convicted him of 60 counts of bribery, money laundering, conspiracy, mail and wire fraud, and filing a false tax return in connection with his accepting money, clothes, jewelry, and other things of value from Blount and LaPierre while Commission President. Langford was instrumental in seeing that Blount Parrish was paid by JPMorgan in connection with the County's financial transactions during his tenure as Commission President.

12. William B. Blount is an individual residing, on information and belief, in Montgomery, Alabama. Blount is chairman and an owner of Blount Parrish, and was involved in multiple County financial transactions at all times relevant to this complaint. Blount has pleaded

guilty to one count of conspiracy and one count of bribery in federal court criminal proceedings as a result of his actions in connection with Jefferson County financial transactions. JPMorgan paid Blount and his companies millions of dollars in connection with the acts described in this complaint.

13. Albert W. LaPierre is an individual residing, on information and belief, in Birmingham, Alabama. LaPierre worked as an operative for Blount during the time frame relevant to this complaint. LaPierre has pleaded guilty to one count of conspiracy and one count of filing a false tax return in federal court criminal proceedings as a result of his actions in connection with Jefferson County financial transactions. LaPierre was paid hundreds of thousands of dollars for his role in the acts described in this complaint.

14. Defendants 1 through 10, whose names are presently unknown but will be added later by amendment when ascertained, are those persons, firms, or corporations who are the true and correct names for the defendants listed above.

15. Defendants 11 through 20, whose names are presently unknown but will be added later by amendment when ascertained, are those persons, firms, or corporations who conspired or otherwise participated with other defendants to commit the acts alleged in this complaint.

16. Defendants 21 through 30, whose names are presently unknown but will be added later by amendment when ascertained, are those persons, firms, or corporations who fraudulently concealed and suppressed from the knowledge of Jefferson County the payments described herein.

17. Defendants 31 through 40, whose names are presently unknown but will be added later by amendment when ascertained, are those persons, firms, or corporations who benefited from or were otherwise unlawfully enriched by the activities set forth in this complaint.

18. Defendants 41 through 50, whose names are presently unknown but will be added later by amendment when ascertained, are those persons, firms, or corporations who supervised or directed the activities of other defendants named herein.

19. The actions that form the basis of this complaint occurred in Birmingham, Alabama; involved the payment of money to Defendants or third parties in connection with Jefferson County financial transactions closed in Birmingham; resulted in the County having to pay more for the financial transactions as a result of the conduct described herein; and caused harm to the County. Therefore, venue is proper in this Court.

20. This Court has personal jurisdiction over the Defendants because they are Jefferson County residents, or because their actions described in this complaint were purposefully directed toward Jefferson County such that they had continuous and systematic contact with Jefferson County during the time period at issue in the complaint, and in some cases because their contacts resulted in contractual agreements with the County, or because they were physically present in Birmingham in connection with the events and financial transactions described in this complaint.

### **III. FACTUAL BACKGROUND**

#### **A. County Sewer Warrant Offerings And Interest Rate Swap Agreements**

21. On December 9, 1996, Jefferson County entered into a Consent Decree with the United States Environmental Protection Agency and the Department of Justice. The Consent Decree required the County to renovate, expand, and improve the County's sewer system, among other requirements.

22. From 1997 until October 2002, the County issued several series of warrants to raise the funds necessary for the Consent Decree work. Prior to October 2002, over 95% of the County's sewer warrants carried fixed rates of interest.

23. Fixed interest rate debt is a common, conservative form of municipal finance. This is principally because, with fixed interest rate debt, the interest rate does not change over time. Fixed interest rate debt is also a preferred method of municipal finance because the interest rate does not depend on the continued existence of particular market conditions or the continued viability of any third party market participants, such as auction participants or bond insurers. By contrast, variable rate debt is a highly risky form of debt because the interest rate is subject to great fluctuations due to market forces, financial issues experienced by third party credit providers, and other forces outside the control of the issuer. Variable rate debt is also more commonly subject to acceleration, where a long-term obligation suddenly becomes due over a much shorter period of time.

24. In late 2002 and 2003, a number of the County's fixed-rate sewer warrants were refinanced, at the urging and advice of JPMorgan, and thereby converted to variable rate debt. This variable rate debt was issued via three series of warrants that refinanced almost all of the

County's then-existing sewer debt: the 2002-C, 2003-B, and 2003-C sewer warrants. These series of warrants carried either variable interest rates ("variable rate demand warrants") or interest rates set by an auction process ("auction rate warrants"). JPMorgan was the lead underwriter for the majority of the variable rate demand warrants and the auction rate warrants.

25. After these transactions, the risk profile of the County's debt structure was radically different from what it had been before the involvement of the Defendants. By the end of 2003, approximately 93% of the County's debt was in the form of variable rate demand warrants and auction rate warrants, and only approximately 7% remained in the form of fixed-rate debt. Although these refinancings substantially increased the risk to Jefferson County, they resulted in the payment of huge fees to JPMorgan, JPMorgan Chase, Blount Parrish, and substantial fees to other local firms.

26. In connection with the issuance of variable rate and auction rate debt, the Defendants sold to Jefferson County an additional financial vehicle known as interest rate swaps. In interest rate swaps, the parties agree to exchange interest payments on a specified principal amount (referred to as the "notional amount") for a specified period of time. During the time period at issue in this complaint, Jefferson County entered into 18 interest rate swap transactions, with an aggregate notional amount of \$5.6 billion. JPMorgan Chase was the County's largest provider for interest rate swap transactions closed in 2002 and 2003. JPMorgan and JPMorgan Chase sold the interest rate swaps to the County as a method of synthetically "fixing" the interest expense associated with the variable rate and auction rate debt JPMorgan had just induced the County to issue. JPMorgan Chase was the primary swap counter-party for the interest rate swap transactions associated with the 2002-C, 2003-B, and 2003-C sewer warrant issues.

27. JPMorgan, JPMorgan Chase, and Blount Parrish were paid millions of dollars as a result of the issuance of variable rate demand warrants and auction rate warrants and the closing of interest rate swap transactions. The price the County paid for these transactions in terms of fees and interest rates was artificially inflated by millions of dollars, to account in part for the fact that JPMorgan's scheme to secure the County's business included bribes, kickbacks, and pay-offs the Defendants paid to or received from each other.

28. The new structure exposed the County, to an unconscionable degree, to fluctuations in its debt service expense on the sewer warrants and on the interest rate swap transactions. The new structure was vulnerable to changes in various interest rates and to the whims of an auction process that the County did not, and could not, control or influence, and was largely dependent on the financial strength and credit rating of the bond insurers who stood behind the County's sewer warrants.

29. Beginning in December of 2007, when the national credit rating agencies placed the bond insurers on "watch" status with negative implications, and continuing through January and February of 2008 as the insurers' credit ratings declined and auctions for the County's auction rate warrants began to fail, the risky nature of the debt structure JPMorgan foisted on the County resulted in a cascade of damage that spread across the County. The County's interest rates and expense on its sewer warrants skyrocketed. These events also caused the principal payment schedule for a large portion of the County's sewer warrants to be shortened from 30 years to four years or less.

30. Because the County could not cover such extraordinary obligations, the ratings on its other indebtedness – including the County's general obligation indebtedness and school

warrants – plummeted, resulting in additional interest costs and a drain on resources and finances generally available in the County. These downgrades, and the increased debt service and related costs that flowed from them, caused enormous reputational damage to the County, preventing any possible restructuring of its debt profile.

31. The financial and reputational damages incurred by the County from the Defendants' conduct are in the billions of dollars.

32. The Defendants have taken affirmative steps to conceal the actions described in this complaint from County officials not in on the scheme, even as recently as the summer of 2008. The County did not know and could not reasonably have known about the bribes, kickbacks, and pay-offs involved in these financial transactions until the testimony of witnesses in Langford's October 2009 criminal trial, the release of the SEC's November 4, 2009 cease and desist order to JPMorgan, and the November 4, 2009 filing of the SEC's complaint against LeCroy and MacFaddin. Had the County had knowledge of these schemes it would not have entertained the plan to restructure the County's fixed-rate debt to variable rate debt, enter into the various interest rate swap transactions, and undertake the other agreements with the Defendants that have left the County in such financial peril.

### **B. The Undisclosed Payments Began**

33. Defendants' involvement in the fraudulent schemes described herein began when LeCroy, a managing director at JPMorgan, approached his superiors with a strategy to secure the County's sewer warrant business. LeCroy suggested making payments to two local broker-dealer firms that had influence over certain former County officials. After being encouraged by their superiors at JPMorgan, LeCroy and MacFaddin embarked on the plan, paying off

politically-connected local firms even if these firms did no work, or virtually no work, in exchange for these payments.

34. The scheme was first implemented in connection with the County's 2002-C sewer warrants. LeCroy and MacFaddin used the promise of payments to two local, politically-connected firms to win for JPMorgan the underwriting for that warrant issue. These firms did not contribute to the underwriting of the 2002-C sewer warrants or serve as swap providers; indeed, the firms did not have adequate capital to serve as swap providers under Alabama law. Nevertheless, JPMorgan ensured that both firms were paid a fee of \$250,000 in connection with the 2002-C sewer warrant issue, upon information and belief even suggesting to the firms how they should submit phony "invoices" to create a paper trail to back up the payments.

35. Neither JPMorgan nor LeCroy nor MacFaddin disclosed these payments to the County. For this reason, neither the October 23, 2002 Jefferson County Commission resolution approving the 2002-C warrant offering, nor the official statement for that offering, mentions the two \$250,000 payments to the local firms.

36. The payments by JPMorgan to these local firms – and later, larger payments to Blount Parrish and others – ran into the millions of dollars and damaged the County because JPMorgan incorporated many of them into the cost of the related interest rate swap transactions, even though LeCroy and MacFaddin knew these firms performed virtually no services for the County.

### **C. The Conspiracy**

37. In November 2002, Larry Langford became President of the County Commission and head of the Commission's Finance Committee. In these capacities, Langford had significant authority over approval of the County's warrant deals and interest rate swap transactions, including which professionals and bankers the County would use in connection with those deals. Early in his administration, Langford made it clear to Steve Saylor, the County's Finance Director, that he wanted Blount and his firm, Blount Parrish, involved in every County financing transaction. Langford and Blount were long-time friends and political colleagues.

38. Prior to Langford's involving Blount in County warrant and swap deals, Blount Parrish had not received any County business from 1997 through 2002. However, Langford was able to ensure Blount's selection because his positions as Commission President and head of the Finance Committee effectively allowed him to control the selection process for underwriters and swap providers. Unbeknownst to the County, Langford, Blount, and LaPierre embarked on a conspiracy to exchange Langford's securing a role for Blount and Blount Parrish in County financial transactions for hundreds of thousands of dollars in cash, luxury clothing, and jewelry paid for by Blount, sometimes using LaPierre as the middle-man. The cash, clothing, and jewelry were to influence and reward Langford in connection with Jefferson County financial transactions.

39. The conspiracy among Langford, Blount, and LaPierre included, among other things: Blount's arranging for Langford to receive a \$50,000 loan from Colonial Bank, and then arranging for LaPierre to take out a loan, guaranteed by Blount, to pay off Langford's loan when it came due; tens of thousands of dollars worth of high-end clothing from local clothier Remon's,

paid for by Blount or by LaPierre; purchases of designer clothing from Zegna and Ferragamo stores in New York City, paid for by Blount and later shipped to Langford's office at the Jefferson County Courthouse in Birmingham; Blount's purchasing Langford a \$12,000 antique watch from Tourneau in New York City; and Blount's purchasing jewelry picked out by Langford at Bromberg's.

40. Langford used his power and influence to include Blount Parrish in Jefferson County financial transactions, thereby generating millions of dollars in fees for Blount and his companies.

41. These efforts by Langford, Blount, and LaPierre were successful in furthering the goals of the conspiracy. For example, within just a few weeks of having arranged to pay off the \$50,000 Colonial Bank loan for Langford, Blount Parrish received \$300,000 from JPMorgan in connection with the 2003-B sewer warrant issue, described more fully below. Later, Blount and LaPierre conspired for Blount to pay to Langford, through LaPierre, the amount of \$69,000 cash. Shortly thereafter, Langford saw to it that JPMorgan paid Blount Parrish \$2.6 million in connection with the 2003-C transaction, described below.

#### **D. The 2003-B Warrants and Interest Rate Swap Agreement**

42. From January until May 1, 2003, LeCroy and MacFaddin actively solicited the County, and Langford in particular, to hire JPMorgan as underwriter on another sewer warrant offering and to enter into another interest rate swap transaction with JPMorgan Chase that became the 2003-B transaction. Because Blount Parrish could not serve as an interest rate swap provider under Alabama's net capital requirements, Blount solicited Langford to select Goldman

Sachs Capital Markets Inc. to participate in the 2003-B swap transaction because Blount Parrish had a consulting agreement with Goldman Sachs.

43. Goldman Sachs and another firm, Rice Financial Products Co., a New York-based broker-dealer, were also pitching swap deals to the County. Rice Financial had recently hired a local consultant who was close to Langford. To prevent Goldman Sachs or Rice Financial from executing their own swap transactions with the County and ensure the County selected JPMorgan Chase as the swap provider, LeCroy and MacFaddin negotiated with Langford for JPMorgan to make payments to those two firms.

44. On February 25, 2003, Langford and the Jefferson County Commission approved a resolution authorizing the \$1.1 billion 2003-B warrant offering, with JPMorgan serving as lead underwriter and JPMorgan Chase serving as swap provider for the corresponding interest rate swap agreement. The County approved a second resolution with more details on March 27, 2003. The interest rate swap agreement was executed on March 28, 2003, with an effective date of May 1, 2003, to coincide with the warrant offering.

45. In presentations and reports sent to the County and credit ratings agencies, JPMorgan represented the warrant offering and swap agreement as one “finance plan” with a combined auction rate warrant offering and swap agreement. Furthermore, the 2003-B warrant offering official statement described the details of both the offering and the swap agreement, and stated the County entered into the swap agreement “in connection with the issuance of the 2003-B” warrants. It also stated that JPMorgan Chase’s variable interest rate payments to the County under the swap agreement were intended to approximate the interest rate the County paid to warrant investors in the auction market.

46. In connection with the warrant deal and swap agreement, LeCroy and MacFaddin agreed in negotiations with Langford to pay Goldman Sachs \$3 million, and Rice Financial \$1.4 million. In turn, Goldman Sachs agreed to pay Blount Parrish, its consultant, \$300,000.

47. To justify these payments, MacFaddin and LeCroy attempted to create a role for both Goldman Sachs and Rice Financial in the 2003-B swap transaction. Yet neither firm entered into a swap agreement with the County, or served as an advisor to the County on this transaction. JPMorgan wired a \$1.4 million payment to Rice Financial and paid \$3 million to Goldman Sachs through a separate swap agreement between Goldman Sachs and JPMorgan Chase created solely as a mechanism to make this payment.

48. JPMorgan, LeCroy, and MacFaddin concealed these arrangements from the County: the interest rate swap agreement confirmation prepared by JPMorgan and signed by Langford on behalf of the County did not disclose the payments to Goldman Sachs and Rice Financial. Instead, MacFaddin set forth the payments in a separate “side letter” he sent only to Langford (that Langford countersigned) on March 28, 2003 — after the swap agreement in connection with the 2003-B transaction had been executed. The side letter was never disclosed to the full Commission or otherwise made public. Because of this concealment, the County Commission resolutions concerning the 2003-B transaction do not mention Rice Financial or Goldman Sachs, or the payment to be made to Blount Parrish. Nor does the interest rate swap agreement confirmation, which Langford signed on behalf of the County, mention any of these items. Upon information and belief, however, at Langford’s direction, JPMorgan had agreed to pay all these entities for essentially no work on the transaction. In effect, JPMorgan secured the County’s work on the 2003-B sewer warrants by paying Goldman Sachs and Rice Financial to stay out of the deal and by arranging to pay off Goldman’s consultant, Blount Parrish.

49. While LeCroy and MacFaddin knew the only reason Langford had required JPMorgan to pay Goldman Sachs was so Blount Parrish could receive a fee, MacFaddin omitted any reference in this side letter to Blount Parrish's fee.

50. Goldman Sachs, however, wrote separately to Langford about Blount Parrish's payment. In a letter also dated March 28, 2003, Goldman Sachs wrote that it was paying "consulting fees" to Blount Parrish, as well as another broker-dealer. Goldman Sachs went on to "recommend that such payment of fees be made known to bond counsel for the refunding bonds to be issued so that counsel can determine whether such payments should be included in the refunding bond offering documents."

51. However, neither Langford nor LeCroy, MacFaddin nor anyone else at JPMorgan ever made such a disclosure to bond counsel or any other County officials working on the warrant offering.

#### **E. The 2003-C Warrants And Interest Rate Swap Agreement**

52. JPMorgan determined to bring Blount onto its team in connection with the next round of sewer warrant refinancing, the \$1.05 billion 2003-C sewer warrant issue and the related \$789 million interest rate swap agreement. LeCroy acknowledged, on information and belief, that Blount Parrish would get a cut of JPMorgan's fee on the interest rate swap transaction in exchange for Blount's ensuring that JPMorgan got the business and for "not messing with us."

53. LeCroy and MacFaddin, using the funds of their employer JPMorgan, also sought in this time period to influence other Commissioners by offering to pay off friends hired as

“consultants” by local firms, or by paying for luxury goods and services for former County Commissioners during trips to New York.

54. The strategy worked again. JPMorgan was selected as lead underwriter of the 2003-C sewer warrants, and JPMorgan Chase was selected as the swap counter-party on the related \$789 million interest rate swap agreement. The effective date of the swap agreement coincided with the 2003-C warrant offering closing date. JPMorgan and JPMorgan Chase made millions of dollars in fees in connection with this transaction, dwarfing the amount of bribes JPMorgan doled out to make sure it got the business.

55. Ultimately, LeCroy and MacFaddin arranged for Blount Parrish to receive \$2.6 million — more than any other participant in the transaction made except JPMorgan itself — in connection with the 2003-C sewer warrant transaction. This amount was approximately 15% of the entire underwriting fee, even though Blount Parrish performed virtually no underwriting services for this payment. The money paid to Blount Parrish was merely a kickback for ensuring that JPMorgan was selected as underwriter, and JPMorgan Chase as swap provider, on the transaction.

56. Once again, JPMorgan, LeCroy, and MacFaddin hid the payments to Blount Parrish and the other local firms from County officials not involved in the scheme. Neither the July 1, 2003 Commission resolution authorizing the warrant issue nor the official documents for the 2003-C warrant transaction mention payments to any of these firms. In fact, upon information and belief, LeCroy was specifically asked at the closing for the 2003-C interest rate swap transaction about the fees JPMorgan was paying, but he did not mention the three payments to Blount Parrish and the other local firms.

57. Two weeks after the 2003-C swap transaction closed, LeCroy sent a letter only to Langford, listing the payments to Blount Parrish and the other local firms, and stating, falsely, that JPMorgan was making them “at the direction of the Commission.” The letter indicated that JPMorgan was making the payments even though “you have noted that certain firms do not have the ability to underwrite, distribute or remarket tax-exempt floating rate securities or participate in providing interest rate swaps.”

58. Significantly, this letter noted that JPMorgan was incorporating the \$3.1 million in payments to the three firms “into the price of the interest rate swap at the time of execution.” This reduced the amount of money the County would receive from the transaction. Upon information and belief, JPMorgan Chase, as the swap provider in connection with the 2003-C transaction, benefitted from the increased interest rates that resulted from JPMorgan’s including the payments to Blount Parrish and the other local firms in the pricing of the 2003-C transaction.

#### **F. The November 2003 Swap Agreement**

59. Even before the 2003-C transaction closed, LeCroy solicited Langford for another JPMorgan Chase interest rate swap transaction with the County.

60. Again, these efforts proved successful, and again JPMorgan paid off Blount Parrish and another local firm. On November 7, 2003, JPMorgan Chase and the County executed a \$111 million swap agreement with an effective date of May 1, 2004.

61. During the November 7, 2003 closing, which LeCroy attended in Birmingham (and which Langford and several County managers and advisors also attended), LeCroy was asked about the fees JPMorgan was paying as part of the transaction. Again, LeCroy did not

mention the \$225,000 fee to Blount Parrish and the \$75,000 fee to another local firm that Langford had directed JPMorgan to pay in connection with the transaction. Again, JPMorgan incorporated those fees into the pricing of the transaction, reducing the amount of money available to the County under the swap transaction and increasing the benefit to JPMorgan Chase on that same transaction.

### **COUNT I – FRAUD AND FRAUDULENT SUPPRESSION**

62. Plaintiff incorporates Paragraphs 1 through 61 as Paragraph 62 of Count I of this Complaint.

63. At all times herein, Defendants JPMorgan, JP Morgan Chase, LeCroy and MacFaddin were sophisticated investment professionals with superior knowledge of the securities markets, municipal financing, interest rate swap transactions, and related matters.

64. As persons possessing such superior knowledge and as underwriters and interest rate swap providers for Jefferson County, Defendants had a duty at all times to deal honestly and openly with Jefferson County, and to disclose to Jefferson County all relevant details of the transactions Defendants were conducting with Jefferson County, including any payments made to other parties. Because of the conspiracy between the Defendants, the sewer warrant refinancing and related interest rate swap agreements were not arms-length transactions.

65. Defendants breached their duty to Jefferson County by making unnecessary and fraudulent payments to parties who did little or no work on the transactions; by failing to disclose such payments; and by affirmatively concealing such payments in response to direct inquiry.

66. Such conduct by Defendants constitutes fraud and fraudulent concealment under the common law of the State of Alabama and under Alabama Code § 6-5-100, *et seq.*

67. Jefferson County reasonably relied on the good faith and honest dealings of Defendants in using Defendants as investment advisors, underwriters, and swap counter-parties. Jefferson County was induced to enter into the financing transactions by its reasonable reliance on the state of affairs as it appeared in the absence of the concealed information.

68. Jefferson County was damaged by the conduct of Defendants as aforesaid. The full amount of damages to Jefferson County has not yet been ascertained.

69. The conduct of Defendants was willful and intentional.

WHEREFORE, Jefferson County seeks damages against all Defendants in an amount to be determined by the jury for compensatory damages, plus such punitive damages as the jury will award.

## **COUNT II – CONSPIRACY**

70. Plaintiff incorporates Paragraphs 1 through 69 as Paragraph 70 of Count II of this Complaint.

71. At all relevant times, all Defendants conspired and combined unlawfully to engage in the conduct described herein, and Jefferson County has been injured as a result of this conspiracy.

72. The conduct of all Defendants in conducting such conspiracy was willful and intentional.

WHEREFORE, Jefferson County seeks damages against all Defendants, as a result of such conspiratorial conduct, in an amount to be determined by the jury for compensatory damages, plus such punitive damages as the jury will award.

**COUNT III – UNJUST ENRICHMENT**

73. Plaintiff incorporates Paragraphs 1 through 72 as Paragraph 73 of Count III of this Complaint.

74. Defendants were unjustly enriched by the conduct described herein, at the expense of Jefferson County.

75. Defendants should be made to disgorge and repay to Jefferson County all fees and profits earned as a result of Defendants' unlawful conduct, together with all damages suffered by Jefferson County as a result thereof.

76. Defendants' conduct at all times was willful and intentional.

WHEREFORE, Jefferson County seeks damages against all Defendants for unjust enrichment in an amount to be determined by the jury for compensatory damages, plus such punitive damages as the jury will award.

**JURY DEMAND**

Plaintiff demands trial by jury on all issues herein.

November 13, 2009.

/s/ Joseph B. Mays, Jr.

Joseph B. Mays, Jr. (MAY004)

Dylan C. Black (BLA084)

J. Thomas Richie (RIC078)

Attorneys for Jefferson County, Alabama

OF COUNSEL

BRADLEY ARANT BOULT CUMMINGS LLP

One Federal Place

1819 Fifth Avenue North

Birmingham, AL 35203-2104

(205) 521-8000; Fax (205) 521-8800

These Defendants are to be served by certified mail at the addresses shown below:

JP Morgan Securities Inc  
c/o The Corporation Company, Registered Agent  
2000 Interstate Park Drive, Suite 204  
Montgomery, AL 36109

JPMorgan Chase Bank, National Association  
c/o The Corporation Company, Registered Agent  
2000 Interstate Park Drive, Suite 204  
Montgomery, AL 36109

Blount Parrish & Company  
10 Court Square  
Montgomery, AL 36104-3701

Charles E. LeCroy  
870 Mayfield Avenue  
Winter Park, FL 32789

Douglas W. MacFaddin  
22 Cottontail Road  
Cos Cob, CT 06807-1104

Larry P. Langford  
300 20<sup>th</sup> Street North, #306  
Birmingham, AL 35203

William B. Blount  
Blount Parrish & Company  
10 Court Square  
Montgomery, AL 36104

Albert W. LaPierre  
1408 Sunshine Drive  
Birmingham, AL 35213