

FILED
U.S. DISTRICT COURT
EASTERN DISTRICT ARKANSAS

**UNITED STATES DISTRICT COURT FOR
THE EASTERN DISTRICT OF ARKANSAS
WESTERN DIVISION**

JUN 18 2009

JAMES W. McCORMACK, CLERK
By: *[Signature]*
DEP CLERK

JOHN RICKE

vs.

Case No.

4 - 0 9 - C V - 0 4 4 7 J L H

This case assigned to District Judge *[Signature: Holmes]*
and to Magistrate Judge *[Signature: Albre]*

PLAINTIFF

**SHEARSON FINANCIAL NETWORK, INC.
AND HARRY R. KRAATZ**

DEFENDANTS

CLASS ACTION COMPLAINT

Plaintiff has alleged the following based upon the investigation of plaintiff's counsel, which included a review of the United States Securities Exchange Commission ("SEC") filings of Shearson Financial Network, Inc. ("Shearson"), as well as regulatory filings and reports, securities analysts' reports and advisories about Shearson, press releases and other public statements issued by Shearson and the Defendant, Harry R. Kraatz, and media reports about Shearson, and plaintiff believes that substantial additional evidentiary support exists for the allegations set forth herein after a reasonable opportunity for discovery.

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the stock of Shearson Financial Networks, Inc. ("Shearson") between May 7, 2009, and May 12, 2009, inclusive (the "Class Period") against certain of the officers and/or directors of Shearson and against Shearson for violations of the Securities Exchange Act of 1934 ("1934 Act").

2. On June 16, 2008, Shearson filed a voluntary petition; case number 08-16-350, for reorganization relief under the provisions of Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Nevada.

3. Shearson operated as “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

4. As of January 23, 2009, Shearson had 42,079,599 of outstanding shares listed on Pinksheets.

5. On April 23, 2009, the last day that a trade of Shearson’s stock occurred prior to beginning of the Class Period, Shearson’s stock closed at \$.0002 a share with 25,000 trading volume.

6. On May 7, 2009, Shearson issued the following press release (“Press Release) through PR Newswire and other media outlets:

SHEARSON FINANCIAL NETWORK, INC. EMERGES FROM
BANKRUPTCY

PR Newswire

SAN FRANCISCO, May 7

SAN FRANCISCO, May 7/PR Newswire-FirstCall/ -- **Shearson Financial Network Inc., a financial services holding company that conducted diversified mortgage banking and brokering operations (Pink Sheets: SHSNQ), announced today that it successfully emerged from bankruptcy on May 7, 2009.** On February 25, 2009, the United States Bankruptcy Court “Confirmed” Shearson’s First Amended Joint Plan of Reorganization.

Mr. Harry R. Kraatz, the newly appointed Chairman and Chief Executive Officer of Shearson, stated that, “The Plan was overwhelmingly supported by the Company’s creditors and it represented a comprehensive and fair proposal for the treatment of outstanding claims. No objection to confirmation of the Plan was made.”

Greg Garman, bankruptcy counsel with the law firm of Gordon Silver said, “In these challenging times it was encouraging to work with Shearson and its creditors to get the company restructured and out of bankruptcy within a matter of months.”

Shearson Financial Network Inc. is a financial services holding company that conducted diversified mortgage banking and brokering operations and is a provider of both traditional and online mortgage services to a diversified customer bank consisting of mortgage lenders, mortgage brokers, real estate agents and consumers...

7. The Press Release specifically used Shearson's ticker symbol, SHSNQ.

8. The Press Release made absolutely no statement that Shearson intended to issue new stock and that the old stock would be cancelled. These omissions caused the Plaintiff and class members to believe that the Shearson stock would continue to trade after Shearson's emergence from bankruptcy under the ticker symbol SHSNQ.

9. Immediately, the trading volume and price of Shearson's stock increased. By the close of business on May 7, 2009, Shearson stock had risen from \$.0002 on April 23, 2009, to \$.0084 with a volume of 7,749,056.

10. On May 8, 2009, the trading volume and price of Shearson stock continued to increase. By the close of business on May 8, 2009, Shearson stock had risen from \$.0084 on May 7, 2009, to a closing price of \$.033 with a trading volume of 32,753,943. Shearson's stock traded at a class period high of \$.039 on May 8, 2009.

THE FRAUD IS REVEALED

11. On May 11, 2009, Shearson filed an 8-K with the Securities and Exchange Commission stating the following:

Shearson Financial Network Inc. Authorizes New Capital in the Amount of 300,000,000 Shares

SAN FRANCISCO, CALIFORNIA— May 12, 2009, Shearson Financial Network Inc., a financial services holding company that

conducted diversified mortgage banking and brokering operations, (Previously Pink Sheets: SHSNQ) confirmed today, as previously disclosed, that it has amended its certificate of incorporation **to authorize newly authorized capital in the amount of 300,000,000 shares which shall constitute all the Newly Authorized Stock of the Company.** On May 7, 2009, the Effective Date, or as soon thereafter as practicable, from the Newly Authorized Stock, Reorganized Shearson shall issue 10,000,000 shares to effectuate the following capital structure: (i) on account of the Kraatz Payment, to Harry Kraatz – 92.5%; (ii) Class 5 – General Unsecured Creditor Claims – 7.5%. The company is in the process of applying for a new stock symbol. **The ticker symbol for the new common stock will not end in "Q".**

On February 25, 2009 the United States Bankruptcy Court “Confirmed” Shearson’s First Amended Plan of Reorganization and the Plan became effective on May 7, 2009. Pursuant to the First Amended Joint Plan of Reorganization and the Disclosure Statement, on the Effective Date the equity securities of the Company, other than the NIR Debentures, were cancelled and **the holders of equity securities received nothing.**

Shearson Financial Network Inc. is a financial services holding company that conducted diversified mortgage banking and brokering operations and is a provider of both traditional and online mortgage services to a diversified customer base consisting of mortgage lenders, mortgage brokers, real estate agents and consumers.

12. Immediately, on May 11, 2009, Shearson stock fell to \$.0097 with high trading volume of 27,632,895. Subsequently, all equity held under the ticker symbol SHSNQ was completely cancelled, meaning all holders of Shearson stock received nothing other than financial losses.

13. The true fact, which was known by the Defendants but concealed from the investing public during the Class Period was that the Shearson stock trading with the ticker symbol SHSNQ would be de-listed and completely worthless upon Shearson’s emergence from bankruptcy. Yet, Shearson issued a press release intentionally using the Company’s ticker symbol SHSNQ and intentionally neglecting

to state that Shearson was issuing new stock for trading while completely cancelling the stock trading under the ticker symbol SHSNQ.

14. As a result of the Defendants' false statements, Shearson's stock prices traded at inflated levels throughout the Class Period.

JURISDICTION AND VENUE

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

16. Venue is proper in this District pursuant to §27 of the 1934 Act as the Defendants transact business within this District.

17. Shearson's principal executive offices are located at 20 Corporate Park, Suite 285, Irvine, CA 92606.

PARTIES

18. Plaintiff, John Ricke, purchased Shearson stock on May 8, 2009 at the Class Period high of \$.039. Plaintiff has been injured as a result of the purchase of staid stock. Plaintiff is a citizen of the state of Virginia.

19. Defendant Shearson Financial Networks, Inc. ("Shearson") is a corporation organized under the laws of the state of Nevada with its principal place of business in California.

20. Defendant Harry R. Kraatz ("Kraatz") was at all relevant times the Chairman and Chief Executive Officer of Shearson. Under information and belief, Kraatz is a citizen of the state of California.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

21. Defendants are liable for making false statement or failing to disclose adverse facts known to them. Defendants fraudulent scheme and course of business operated as a fraud or deceit on purchaser of Shearson was a success as it deceived the investing public into purchasing shares of Shearson which were ultimately cancelled and valueless.

DEFENDANTS' MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

22. In an effort to get investors to purchase the stock of Shearson, on May 7, 2009, Shearson issued a press release stating that it had emerged from bankruptcy without disclosing that Shearson's stock would be cancelled, that new shares would be issued, and that Shearson's ticker symbol would not continue to be SHSNQ, the ticker symbol used in the May 7, 2009, press release.

23. Shearson's statement caused Shearson's stock to reach class period high of \$.039 on May 8, 2009.

24. As a result of the Defendants' false and misleading statements, Shearson's stock traded at inflated levels during the Class Period.

LOSS CAUSATION/ECONOMIC LOSS

25. Defendants' false and misleading statements had the intended effect and caused Shearson's stock to trade at artificially inflated levels throughout the Class Period, reaching its all time high of \$.039 on May 8, 2009.

26. Subsequently, Shearson's stock was completely cancelled causing the investors in Shearson's stock during the class period to receive absolutely nothing from investments in Shearson.

CLASS ALLEGATIONS

27. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Shearson stock during the Class Period (the "Class"). Excluded from the Class are defendants.

28. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Shearson has issued millions of shares of stock, owned by hundreds if not thousands of persons.

29. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law or fact common to the members of the Class which predominate over questions that may affect individual Class members include: whether the 1934 Act was violated by defendants; whether defendants omitted and/or misrepresented material facts; whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; whether defendants knew or deliberately disregarded that their statements were false and misleading; whether the price of Shearson stock was artificially inflated; and the extent of damage sustained by Class members and the appropriate measure of damages.

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

31. Plaintiff will adequately protect the interests of the Class and has retained counsel that is experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

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

COUNT I – VIOLATION OF §10(b) of the 1934 Act and Rule 10b-5 Against all Defendants

33. Plaintiff incorporates the previous paragraphs as if stated word for word herein.

34. During the Class Period, Defendants disseminated or approved false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading

35. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they; employed devices, scheme and artifices to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiffs and others similarly situated in connection with their purchases of Shearson's stock during the Class Period.

36. Plaintiff and Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Shearson's stock. Plaintiff and the Class would not have purchased Shearson's stock at the prices they

paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by the Defendants' misleading statements.

COUNT II - Violation of §20(a) of the 1934 Act Against All Defendants

37. Plaintiff incorporates the previous paragraphs as if stated word for word herein

38. Defendant Kraatz acted as a controlling person of Shearson within the meaning of §20(a) of the 1934 Act. By reason of his position with Shearson, and his ownership of the Shearson's stock, Kraatz had the power and authority to cause Shearson to engage in the wrongful conduct complained of herein. Shearson controlled Kraatz and all of its employees. By reason of such conduct, the Defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

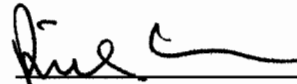
- a) Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- b) Awarding Plaintiff and the members of the Class damages, including interest;
- c) Awarding Plaintiff reasonable costs and attorneys' fees; and
- d) Awarding such equitable/injunctive or other relief as the Court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

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: 6/17/09

By:



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