UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ROBERT SIBLE, On Behalf Of Himself And All Others Similarly Situated Plaintiff, -against- BARRINGTON L. SIMON, DONALD J. IWACHA, EVE SIGFRID, GREG AMUR, LIGHT MANAGEMENT GROUP, INC., JAMES E. SLAYTON, CPA, and FELDMAN, SHERB & CO., P.C., Defendants.	CASE NO. CLASS ACTION COMPLAINT FOR VIOLATION OF FEDERAL SECURITIES LAWS JURY TRIAL DEMANDED

Plaintiff, alleges the following upon personal knowledge as to himself and his own acts, and upon information and belief as to all other matters. Plaintiff's information and belief is based, inter alia, on the investigation conducted by plaintiff's attorneys, including a review of the press releases and SEC filings of defendant Light Management Group, Inc. ("LMG" or the "Company") and news articles pertaining to LMG. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth after a reasonable opportunity for discovery.

SUMMARY OF THE CASE

1. Plaintiff brings this securities class action on behalf of a class of persons who purchased the common stock of LMG during the period from June 9, 1999 through November 20, 2001 (the "Class Period"). Throughout the Class Period, defendants misrepresented LMG's financial results, and failed to disclose weaknesses in its financial internal controls. During the Class Period, financial results for fiscal 1999 were restated twice. Financial results for the first, second, and third quarter of 2000 were each separately restated once. In addition, year end

results for fiscal 2000 were also restated.[1] Each time, the LMG defendants falsely claimed that results had been fairly stated. Moreover, the Independent Auditor defendants, James E. Slayton, CPA ("Slayton') (auditor for 1999) and Feldman, Sherb & Co., P.C. ("Feldman Sherb") (auditor for 2000) falsely represented that year end results had been presented in accordance with generally accepted accounting principles (GAAP") based upon an audit that was purportedly conducted in compliance with generally accepted auditing standards ("GAAS").

2. LMG issued materially false and misleading financial results in an attempt to hide escalating costs and, thereby, create the false impression that its business model was developing successfully. Defendants' misconduct included: (a) booking sales that later had to be reversed; (b) failing to account for escalating costs and non-salary based compensation; (c) misclassifying inventory as capital equipment; (d) failing to account for expenses incurred by LMG which were paid by related entities in the period incurred; (e) failing to book expenses due to the settlement of debt with related parties; and (f) substantially understating interest expenses.

3. As demonstrated by virtue of the restatement, net income for fiscal year 1999 was overstated by 500%. Revenue for 1999 was overstated by 11%. Expenses for 1999 were understated by 250%. For the first quarter of 2000: sales were overstated by 49%; SG&A expenses were understated 295%; and net losses were understated by over 300%. For the second quarter of fiscal 2000: sales were overstated by 67%; SG&A expenses were understated by 120%; total operating expenses were understated by 40%; and losses were understated by 85%. For the third quarter of 2000: sales were overstated by 67%; total operating expenses were understated by 108%; and losses were understated by 85%.

[1] LMG's fiscal year follows the calendar year.

4. Moreover, during the Class Period, LMG falsely stated that it had received commitments for outside funding. Defendants did not disclose the truth until well after the funding should have been completed. Defendant Barrington L. Simon ("Simon") knew that such funding would not be forthcoming, but he continued to allow the investing public to be deceived with regard to this material fact. In addition, LMG deceptively represented that backlog orders for its outdoor media projection systems had increased by $20 million. In the two years following this statement, LMG's reported revenues never approached this level, because LMG never had firm orders form third parties in that amount. LMG eventually disclosed that the whole $20 million "backlog" was expected to come from a single company, Amplified Light Technologies ("Amplified"), which as controlled by affiliates of Simon including his brother George Simon. Simon's relationship to Amplified was never publically disclosed in LMG's press releases and SEC filings. Although LMG had $2 million in accounts receivables due from Amplified in connection with the contract, the $12 million was neither collected nor written off during the Class Period.

5. Defendants' wrongful course of conduct served to inflate the price of LMG common stock during the Class Period. While the price was being artificially inflated by LMG's misrepresentations, Omega Financial (a financial services firm 38%-owned by Simon) sold substantial amounts of LMG common stock during the Class Period. As the truth slowly became known, the price of LMG common stock eroded. By the last day of the Class Period, the price of LMG common stock which had traded for as much as $17.50 per share, had declined to $0.450 per share.

JURISDICTION AND VENUE

6. The claims herein arise under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 (15 U.S.C. §§78j(b) and 78t(a)) (the "Exchange Act") and Rule 10b-5 promulgated thereunder (17 C.F.R. §240 10b-5).

7. This Court has subject matter jurisdiction of this action pursuant to 15 U.S.C. §78u.

8. Venue is proper in this district pursuant to 28 U.S.C. §1391(b). Many violations of law complained of herein occurred in substantial part in this district, including the dissemination of materially false and misleading statements and the omission of material information complained of herein.

9. LMG's SEC filings list Jenkens & Gilchrist Parker Chapin LLP (Martin E. Weisberg, Esq.) as its agent for service in New York at the following address: The Chrysler Building, 405 Lexington, New York, New York 10174.

10. Feldman, Sherb & Co., P.C. maintains their principle place of business at 805 3rd Ave., New York, New York 10022.

11. Venue is proper with respect to James E. Slayton, CPA because he performed accounting services for LMG. Slayton currently resides or does business at the following addresses: (a) Stewarts Pt. Lot 32, Lake Mead, NV 89040; (b) 116 N. 18th St., Las Vegas, NV 89040.

12. In connection with the conduct complained of herein, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the mails and interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

13. Plaintiff purchased shares of LMG common stock during the Class Period as indicated on the annexed certificate and was damaged thereby.

14. Defendant LMG develops optical and light technologies applications employing sound waves. LMG is traded on the OTC Bulletin Board under the ticker symbol "LMGR". LMG is a Nevada corporation which maintains its principle place of business at 3060 Mainway, Suite 301 Burlington, Ontario. LMG's agent for service is Jenkens & Gilchrist Parker Chapin LLP (Martin E. Weisberg, Esq.) at the following address: The Chrysler Building, 405 Lexington, New York, New York 10174.

15. (a) Defendant Barrington L. Simon ("Simon") was Chairman and Chief Executive Officer of LMG during the Class Period. Simon became CEO and Chairman of LMG in May of 1999. On July 27, 2001, Simon resigned from the position of CEO to be replaced by defendant Iwacha. He retains the position of Chairman of the Board;

(b) Simon purports to be an accounting and finance professional with extensive experience. He is a Certified General Account in Canada with extensive employment experience as a finance professional employed by large corporations as well as in his own practice. LMG's SEC filings, including the Form 10-KSB/A for the fiscal year 2000, filed on June 22, 2001, describe his accounting background in the following manner:

> Mr. Simon attended a general business degree program at the Stratford Technical College in England. Upon immigration to Canada he received recognition and the designation of Certified General Account. Mr. Simon has worked for many reputable companies such as Mercantile Bank of Canada (currently known as Citibank), Halton Credit Union, Colortron Photo Services, Taylor Leibow Chartered Accountant and PPG Canada Limited. In addition to working for the above companies, he has owned and operated his own accounting practice between 1982-1999 and his own financial services company between 1995-1999.

(c) Defendant Simon signed: LMG's Form 10-KSB, filed on April 14, 2000, reporting financial results for the year ended December 31, 1999; LMG's Form 10-KSB/A00, filed on April 24, 2001, reporting the restated financial results for the year ended December 31, 1999 (acting as Chairman and CEO); LMG's Form 10-KSB & 10-KSB/A filed, respectively, on May 24, 2001 and June 2, 2001 reporting and restating financial results for year ended December 31, 2000 (acting as Chairman); and

(d) As a result of his positions of responsibility and control within the Company during the Class Period, Simon is responsible for all statements issued by the Company as described therein.

16. Dr. Donald J. Iwacha ("Iwacha") is and, at all times relevant hereto, was the President of LMG. During the Class Period, in July of 2001, he assumed the position of Chief Executive Officer. Iwacha signed: LMG's Form 10-KSB/A, filed on May 10, 2000, reporting restated financial results for fiscal 1999 (acting as President of LMG); LMG's Form 10-KSB/A00, filed on April 24, 2001, reporting restated financial results for 1999 (signing as President); LMG's Form 10-QSB reporting financial results for the three month period ended March 31, 2000 (signing as President); LMG's Form 10-QSB, filed on August 22, 2000, reporting financial results for the three and six month period ended June 30, 2000 (signing as President); LMG's Form 10-QSB, filed on November 20, 2000, reporting financial results for the three and nine month period ended September 30, 2000 (signing as President); LMG's quarterly Forms 10-QSB reporting financial results for the first, second, and third quarters of fiscal 2001 (which also restated results for the same periods in fiscal 1999), filed on (respectively) May 24, 2001, August 14, 2001, and November 19, 2001 (signing as CEO); and LMG's Form 10-KSB & 10-KSB/A filed, respectively, on May 24, 2001 and June 2, 2001 reporting financial results for

fiscal 2000 (signing a CEO). As a result of his positions of responsibility and control within the Company during the Class Period, Iwacha is responsible for all statements issued by the Company as described therein.

17. Defendants Simon and Iwacha are collectively referred to herein as the "LMG defendants."

18. Eve Sigfrid ("Sigfrid") was the Chief Financial Officer ("CFO") of LMG during a portion of the Class Period. She held that position from August 15, 1999 until December 10, 1999. As a result of her position of responsibility and control within the Company during the Class Period, Sigfrid is responsible, and liable, for all statements regarding the Company's financial condition during her term of employment as CFO (August 15, 1999 until December 10, 1999). During her term of employment, LMG issued a press release dated December 1, 1999 which announced financial results for the third quarter of fiscal 1999.

19. Greg Amur ("Amur") is the CFO of LMG. Amur became CFO in approximately December of 1999. As a result of his position of responsibility and control within the Company, Amur is responsible and liable for all statements regarding the Company's financial condition during his tenure as CFO (from approximately January 1, 2000 through the end of the Class Period).

20. Defendants Sigfrid and Amur are collectively referred to herein as the "CFO defendants."

21. Defendants Simon, Iwacha, Sigfrid and Amur are collectively referred to herein as the Individual Defendants.

22. Defendant James E. Slayton, CPA ("Slayton") was LMG's independent auditor engaged in January 2000 to audit LMG's financial statements for the twelve month period ended

December 31, 1999 and to review the March 31, 2000 financial statements. Slayton's engagement with LMG was terminated on October 9, 2000. During the time in which he served as auditor, Slayton issued auditors' reports, stating that LMG's financial condition had been fairly presented in accordance with GAAP. These reports were included with LMG's Forms: 10-KSB for fiscal 1999; 10-KSB/A reporting restated fiscal 1999 results; 10-QSB for the first quarter ended March 31, 2000; and 10-KSB reporting financial results for fiscal 2000 and restating fiscal 1999 results (acting with respect to fiscal 1999 financials). As a result of his role as auditor, Slayton is responsible and liable for all of the financial statements appearing in LMG's SEC filings which he audited or reviewed as described above. Slayton currently resides and/or does business at the following addresses: (i) Stewarts Pt. Lot 32, Lake Mead, NV 89040.and (ii) 116 N. 18^{th} St. Las Vegas, NV 89040. On January 7, 2002, the SEC's Division of Enforcement ("Division") and Office of the Chief Account ("OCA") announced a proceeding against Slayton. The proceeding alleges that Slayton willfully violated Section 10(b) of the Exchange Act and Rule 10b-5, and charges that Slayton willfully aided and abetted and caused violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1. The SEC charges that during the period when Slayton served as auditor of California Software and its predecessor company California Software Products, Inc. ("CPSI"), from late 1988 through early 2000, that he "issued false reports which claimed that California Software's and CLSI's financial statements complied with generally accepted accounting principles ("GAAP"), when, in fact, those financial statements were materially false." The wrongful course of conduct alleged includes: recognizing revenue using a method that does not comply with GAAP; failing to properly confirm accounts receivable; failing to obtain management representation letters to support claims; failing to properly supervise audits; and falsely representing that his audits conformed with GAAP and

GAAS. See James E. Slayton: Admin. Proc. Rel. No. 34-45245/January 7, 2002 (http://www.sec.gov.litigation/admin/34-45245.htm). On March 6, 2002, the SEC's Division and OCA announced a second proceeding against Slayton in connection with his audit report on the financial statements of Freedom Surf for the year ended December 15, 1999. The proceeding alleges that Slayton willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act (and Rule 10b-5 promulgated thereunder), and caused and willfully aided and abetted violations of Section 12(g) and Rule 12b-20 of the Exchange Act. The SEC has charged that Slayton failed to follow GAAP and GAAS in connection with his audit of Freedom Surf's financial statements for fiscal 1999 which listed assets valued at $5.18 million that consisted entirely of equipment purportedly purchased from an entity in Costa Rica. The reported value of the equipment was supported by a fabricated appraisal, which Slayton relied upon in rendering his audit report. In the auditor's report issued in connection with those financials, Slayton falsely stated that Freedom Surf's financial statements fairly presented its financial condition in all material respects in conformity with GAAP and that he conducted his audit in accordance with GAAS. See, James E. Slayton: Admin. Proc. Rel. No. 33-8067/March 6, 2002 (http://www.sec.gov.litigation/admin/33-8067.htm).

23. Defendant Feldman, Sherb & Co., P.C. ("Feldman Sherb") became LMG's independent auditor in approximately December of 2000. During the time in which Feldman Sherb served as independent auditor, the firm issued an auditors' report, stating that LMG's financial results for fiscal 2000 were presented "fairly, in all material respects" and in accordance with GAAP. These reports were included in LMG's Form 10-KSB, filed on April 24, 2001, reporting financial results for fiscal 2000. As a result of their role as auditor, Feldman Sherb is responsible and liable for all of the financial statements as they appeared in LMG's

Form 10-KSB, filed on April 24, 2001, for fiscal 2000. Feldman Sherb maintains its principal place of business at 805 3rd Avenue, New York, New York 10022.

24. Defendants Slayton and Feldman Sherb are collectively referred to herein as the "Auditor Defendants."

PARTICIPATION OF INDIVIDUAL DEFENDANTS

25. The LMG defendants and the CFO defendants[2] participated in the drafting and preparation of the various public filings and other communications complained of herein and were aware of the misstatements contained therein and omissions therefrom, and were aware of their materially misleading nature. Because of their Board membership and/or executive and managerial positions with LMG, the LMG defendants and the CFO defendants had access to adverse non-public information about LMG's business prospects and financial condition. The LMG defendants and the CFO defendants, by reason of their stock ownership, management position, and/or membership on LMG's Board of Directors, were controlling persons of LMG and had the power and influence, and exercised it, to cause LMG to engage in the illegal practices complained of herein.

26. It is appropriate to treat the LMG defendants and the CFO defendants as a group for pleading purposes and to presume that the false and misleading information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers or directors of LMG, by virtue of their high-level position with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest level and was privy to confidential proprietary

[2] Participation and control of the CFO defendants is alleged only during their period of employment and with respect to statements regarding LMG's financial condition.

information concerning the Company and its business, products, operations, technologies, production cycles and business prospects as alleged herein. The LMG defendants and the CFO defendants were involved or participated in the drafting, producing, reviewing and/or disseminating the false and misleading statements alleged herein. The LMG defendants and the CFO defendants were, thus, aware that these false and misleading statements were being issued regarding the Company and approved or ratified these statements, in violation of the federal securities laws.

CONTROL OF INDIVIDUAL DEFENDANTS

27. The LMG defendants and the CFO defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the contents of the various quarterly reports, SEC filings and press releases pertaining to the Company. The LMG defendants and the CFO defendants were provided with copies of LMG's press releases and SEC filings after their issuance, with the opportunity to cause them to be corrected. Because of their Board membership and/or executive and managerial positions with LMG, the LMG defendants and the CFO defendants had access to the adverse non-public information about LMG's business and finances particularized herein, infra, via access to internal corporate officers and employees, attendance at LMG's management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith. As a result, the LMG defendants and the CFO defendants were responsible for the accuracy of the public reports and releases detailed herein as "group published" information, and are therefore responsible and liable for the representations contained therein under Section 20(a) of the Exchange Act.

28. The LMG defendants and the CFO defendants either knew or recklessly disregarded the fact that the illegal acts and practices and materially misleading statements and

omissions described herein would adversely affect the integrity of the market for LMG common stock and would artificially inflate or maintain the price of LMG common stock. Each of them, by acting as herein described, did so knowingly or in such a reckless manner as to constitute a fraud and deceit upon plaintiff and the other members of the Class who plaintiff seeks to represent.

CLASS ACTION ALLEGATIONS

29. Plaintiff brings this action as a class action, pursuant to Fed. R. Civ. P. 23(a) and (b)(3), on behalf of a class consisting of all persons who purchase LMG common stock from June 9, 1999 through November 20, 2001, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are defendants, officers and directors of the companies, members of the immediate families of such officers and directors of the subdivisions and/or affiliates of the corporate defendants.

30. By the end of the Class Period, there were over 22,900,000 shares of LMG common stock outstanding held by thousands of shareholders. LMG common stock was actively traded on the OTC Bulletin Board, an open and efficient market, during the Class Period. Because persons who purchased LMG shares during the Class Period number at least in the hundreds and are believed to be located throughout the country, joinder of all such class members is impracticable.

31. There are questions of law and fact common to all class members which predominate over any questions affecting only individual class members, including:

a. Whether the federal securities laws were violated by defendants' acts as alleged herein;

b. Whether documents, releases and/or statements disseminated to the investing public and LMG shareholders during the Class Period omitted and/or misrepresented material facts about the business and financial condition of the Company;

c. Whether defendants made materially misleading statements during the Class Period about the business and financial condition of the Company;

d. Whether the defendants acted knowingly and/or recklessly in making materially false statements and omitting material facts about the business and financial condition of the Company;

e. Whether the market price of the Company's common stock was artificially inflated during the Class Period due to the non-disclosures and/or material misrepresentations complained of herein; and

f. Whether the members of the Class have suffered damages and, if so, what is the proper measure of damages.

32. Plaintiff's claims are typical of all class members' claims. Plaintiff has selected counsel experienced in class and securities litigation and will fairly and adequately protect the interests of the Class. Plaintiff has no interests antagonistic to those of the Class.

33. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual class members may be relatively small, as are plaintiff's damages, the expense and burden of individual litigation make it virtually impossible for members of the Class to individually seek redress for the wrongful conduct alleged.

34. Plaintiff knows of no difficulty which will be encountered in the management of this litigation which would preclude its maintenance as a class action.

BACKGROUND

35. LMG develops and markets optical and light technologies with applications in the fiber optic communications, biomedical, out-of-home advertising, industrial and aerospace markets. These technologies use sound waves to focus and direct lasers. The Company's proprietary laser projection system, called RGB Laser Projection System, produces graphic images in moving three dimensional designs for display of advertisements on large-scale billboards. The Company also has two pending patents in the fiber optics field which have possible applications in telecommunications, data transmission, and Internet technology. LMG targets five areas for application development: visual media (including outdoor advertising); digital communications; industrial equipment; aerospace; and bio-medical.

36. LMG's business model contemplates growth by acquisition, strategic partnerships, and license agreements.[3] LMG's operations are conducted through subsidiaries, three of which were acquired externally. These subsidiaries include:

> <u>Laser Show Systems Ltd. ("Laser Show"):</u> Laser Show engages in product development and market planning. Laser Show markets a patented digital laser projection device that allows real-time digital content to be streamed to outdoor media boards. Laser Show is an acquired entity which began operations in August 1997.
>
> <u>Exclusive Advertising Inc. ("Exclusive Advertising")</u>: Exclusive Advertising maintains 3000 media poster faces and 600 digital display units serving 4.9M consumers. Exclusive Advertising sells advertising space in the interior of the passenger rail cars of the Canadian government's Greater Toronto Area "Go Transit" commuter rail system pursuant to a 10 year contract with a 5 year renewal option. Exclusive Advertising is the only subsidiary to generate substantial revenues during the Class Period.

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[3] LMG was organized under the laws of the State of Nevada on April 20, 1998 under the name Triton Acquisition Corporation ("Triton"). The name of the company was subsequently changed to Light Management Group, Inc. On May 18, 1999, LMG executed an Exchange Agreement and Plan of Reorganization with Laser Show Systems ("Laser"), a Canadian corporation, by which LMG acquired Laser as a wholly owned subsidiary.

> <u>Light Research and Development</u>: Light Research and Development, formed in March 2000, is a research group which develops new optic, laser and related technologies as well as new applications of fiber optics technologies.
>
> <u>Optico Luz:</u> Optico Luz is a provider of end-to-end consulting IP solutions, network services, on-site and remote infrastructure support services to maximize effectiveness and reliability of LAN/WAN/IOS networks. Optico Luz concentrates its business and operations in Central and South America.

37. Defendant Simon became President and Chief Executive Officer and Chairman of LMG in May of 1999. LMG's SEC filings repeatedly refer to Simon's extensive background as an accounting professional. For example, LMG's Form 10-KSB for fiscal 1999 (filed on April 14, 2000) states:

> BARRINGTON L. SIMON, C.G.A., Chairman, CEO, age 53. Mr. Simon has been Chief Executive Officer and Director of the Issuer since May 19, 1999. Mr. Simon attended a general business degree program at the Stratford Technical College England. Upon immigration to Canada he received recognition and the designation Certified General Account. Mr. Simon has worked for many reputable companies such as Mercantile Bank of Canada (currently known as Citibank), Halton Credit Union, Colortron Photo Services, Taylor Leibow Chartered Accountant and PPG Canada Limited. In addition to working for the above companies, he has owned and operated his own financial services company.

SUBSTANTIVE ALLEGATIONS

38. On June 9, 1999, the first day of the Class Period, LMG issued a press release on <u>Business Wire</u> announcing the acquisition of Exclusive Advertising. Defendant Simon stated that orders for LMG's outdoor media projection systems had increased by $20 million. Simon stated that:

> Exclusive recently began the installation of two digital display boards in each of the GO Transit fleet of 300 rail cars. This unique and dynamic electronic display media complements the existing poster media which together offer the advertisers the opportunity to capture audience attention, understand product features and respond in this highly captive environment.

> Online competition abounds to attract users to specific internet portals. The cross media impact of traditional outdoor media and internet content provides a new competitive venue for internet marketers.
>
> ***
>
> This market offers potential for growth that is significant. Our order book for outdoor media projection systems has increased by twenty million dollars in the last month alone. Our production is now fully committed into the fall…we are delighted to participate with Exclusive Advertising, Gary Pare the President and his people who do a wonderful job in bringing the latest in visual technology to our own backyard. GO Transit is a world leader of inter regional transit and provides an ideal showcase for Internet portal content. We are proud to be a part of this project.

39. LMG's representation that orders for the Company's outdoor projection system had increased by "twenty million dollars" in one month was materially false and misleading. In the two years following this statement, LMG's reported revenues never approached this level. Moreover, the orders referred to in the press release were not multiple orders from third parties as LMG deceptively implied, but a single contract with a series of newly formed business entities hastily created with affiliates of defendant Simon in attempt to substantiate LMG's claim.[4]

40. LMG eventually issued a subsequent press release, on October 10, 2000, which indicated that the previously promised $20 million in revenues was all supposed to come from a

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[4] Laser Show executed an agreement dated September 1, 1999 to sell projection systems to Interactive Technologies Inc. (which was operated out of the home of defendant Simon's brother George Simon). Although the name of the purchaser bore the designation "Inc.", that entity was not incorporated. Another incorporated company operating in Canada was already doing business under the same name. On March 14, 2000, Simon acting as CEO and President of a company called Softlite Advertising Inc. had its name changed to ITI Interactive Technologies Inc. (George Simon – Vice President and Secretary). On September 26, 2000, Amplified Light Technologies was formed using directors related to Simon (President, Elizabeth Dolores Leblanc, Simon's sister; Cristina Pereira Santos, who operates Mercator Securities – Bahamas (a company in which Simon had an ownership interest) and serves as director of Omega; and Manuel Santos, Pereira's husband). LMG later informed the public that it had a single agreement with Amplified. In light of the troubled history of the purported agreement, LMG's representation, on the first day of the Class Period, that it had orders totaling $20 million was materially misleading.

single purchaser – Amplified Light Technologies ("Amplified"). Amplified was formed in September of 2000 and, therefore, was not even in existence in June of 1999. Simon's affiliation to Amplified was never publically disclosed in LMG's press releases and/or SEC filings. Amplified is controlled by relatives and affiliates of Simon (not independent third parties placing orders for LMG's outdoor media projection systems as LMG had deceptively implied). Moreover, Simon was essentially steering profits away from publically held LMG in favor of his own affiliates by selling projection systems to Amplified who would make a profit in connection with their distribution to customers. LMG accumulated over $2 million in uncollected accounts receivables due from Amplified in connection with the contract during the Class Period.

41. On July 1, 1999, LMG issued a press release on Canada NewsWire announcing that it had reached a "definitive agreement" with DJL Capital Corporation ("DJL Capital") whereby DJL Capital had purportedly agreed to provide up to $75 million to finance the deployment of LMG's billboard projection systems. The press release indicated that the funding (to be provided in three phases) would begin in August of 1999 and be complete by Spring of 2000. The press release stated:

> Light Management Group Inc. (NASD OTC:BB LMGR) is pleased to announce that the operating subsidiary Lasershow Systems (Canada) Ltd. has reached a definitive agreement with DJL Capital Corporation for up to $75 million US operating financing for the deployment of it's billboard projection systems. The funding will be advanced in three phases, beginning in August of this year and to be completed by Spring 2000.
>
> The funding has been structured under a tax deferral Limited Partnership Agreement. The partnership will purchase and operate Laser Billboards in conjunction with several major sign companies in both Canada and the US. Under the terms of the agreement, the long term financial obligation remains with the Limited Partnership. The partnership group will also pay an annual maintenance fee to Lasershow Systems (Canada) Ltd. for long term service and repair of the installed systems.

42. The press release indicated that this financing was one of the cornerstones of LMG's business plan for subsidiary Lasershow as follows:

> Over the last several months Lasershow has been in discussions with several major providers of sign locations in 50 major markets in North America. With this financing in place, the company expects to complete final contractual arrangements for strategic partnerships and the deployment of Laser Projection systems hardware with several parties in the outdoor media marketplace.
>
> Commenting on the agreement LMGR CEO and President Barrington L. Simon said, "This financing provides both our company and our customers an excellent package with very favorable terms."

43. LMG's announcement clearly indicated that "financing was in place." However, by the end of August 1999, LMG had not yet received even the first installment of funds and the defendants knew that the funding would not be forthcoming. The LMG defendants had a duty to disclose this material fact. Instead, they waited until year end results were filed for 1999 on April 14, 2000 (by this time the financing should have been completed).

44. One July 13, 1999, LMG issued a press release on <u>Canada News Wire</u>, reporting financial results for the second quarter ended June 30, 1999 as follows:

> Light Management Group Inc. (NASD OTC:BB LMGR) today reported a consolidated net profit of $ 50.587 on consolidated revenue of $ 904.122 for the quarter ended June 30, 1999. The net earning per share for this quarter totaled $ 0.0037. EBITDA (earnings before interest, taxes, depreciation and amortization) for this quarter was $ 167,894, or $ 0.012 per share.
>
> Laser Show Systems (Canada) Ltd. generated $ 730,085, or 80% of total revenue and has accumulated a backlog of orders for its outdoor projection equipment of $ 22 million.
>
> The recent acquisition of Exclusive Advertising Inc. which maintains the media displays on the Go Transit system generated $174,037 for the period. Since the acquisition of Exclusive, June 7, 1999 the company has invested $ 250,000 to deploy digital LED display units in 300 passenger railcars. The installation of these units was completed July 8th, 1999.

45. Defendant Simon commented on the significance of LMG's first profitable quarter in the press release as follows:

> We are excited to see the Company move forward financially. This quarter represents an historic time for the company; a first for profit. We have been focused on R&D for several years and now we are evolving towards an operating manufacturer.

46. LMG's statement of financial results for the six month period ended June 30, 1999 was materially false and misleading (LMG's second quarter results do not appear to have been reported to the SEC with an appropriate Form 10-QSB filing). As discussed in detail below, sales and earnings were materially overstated, and costs (including depreciation and interest expenses) were materially understated. LMG falsely stated that the Company had earned a profit for the period, when in fact the Company had suffered a loss.

47. The July 13, 1999 press release also emphasized the importance of the previously announced financing stating that:

> A recently announced financing program will allow this division to accelerate the expansion of manufacturing and production facilities to accommodate the demand for product.

48. On July 19, 1999, LMG announced the appointment of Eve Sigfrid, CMA as Chief Financial Officer, effective August 15, 1999.

49. By the end of August 1999, defendants Simon, Iwacha, and Sigfrid knew that the Company had not received the first of the three part financing installments. Yet, they did not make the required disclosure of this material adverse condition until year end results were filed for 1999 on April 14, 2000. Moreover, on August 26, 1999, DJL (which is affiliated with Simon) acknowledged in a private letter that it had not received funding. Therefore, it was not in a position to (and had not) provided funding of LMG.

50. On December 1, 1999, LMG issued a press release on Business Wire announcing financial results for the nine month period ended September 30, 1999 as follows:

> Light Management Group, Inc. (OTC BB:LMGR) is pleased to announce that its operations have earned revenue of $1,355,380 through its third quarter, ended September 30, 1999. Its net income was $94,887.

51. Defendant Simon once again emphasized the significance of LMG's profitability as follows:

> We are very pleased with these financial results.
>
> It is very rare for young, high-tech companies to be profitable this early in their evolution. The bulk of LMG's energy this year has been spent cultivating partnerships and locating immediate income streams, as ways of fostering further research and development on our proprietary light technologies. That we are already profitable is a nice bonus.

52. On January 26, 2000, LMG filed its Form 10-QSB, signed by defendant Iwacha, which reported financial results for the nine month period ended September 30, 1999 as announced on December 1, 1999 ("Third Quarter Fiscal 1999 10-QSB").

53. The Third Quarter Fiscal 1999 10-QSB disclosed that LMG was involved in litigation regarding technology imported from Moscow. LMG indicated that the litigation was not expected to "adversely affect the financial performance of the company". The Third Quarter Fiscal 1999 10-QSB stated:

> 9 LITIGATION
>
> The company and some of its officers are being sued by a shareholder of a company that formerly had a contractual relationship with LaserShow Systems, Moscow, who owned patents that have been transferred to LaserShow Systems (U.K.), with whom the Company has a purchase agreement. The company and its officers deny all allegations and intend to vigorously defend the charges and expects to be successful in the litigation and does not expect the litigation to adversely affect the financial performance of the company.

54. This statement regarding the Moscow litigation was materially false and misleading. At the time this statement was made, the defendants knew that the litigation had merit. In March of 2000, only three months later, LMG settled the litigation for the substantial amount of $851,159.

55. Moreover, the financial results published in LMG's press release and Form 10-QSB, for the nine month period ended September 30, 1999 were materially false and misleading. As discussed in detail below, sales and earnings were materially overstated, and costs (including depreciation and interest expenses) were materially understated. LMG deceptively stated that the Company had earned a profit for the period, when in fact the Company had suffered a loss.

56. On January 28, 2000, LMG filed a Form 8-K indicating that: (a) LMG's auditor, S.W. Hatfield, CPA ("Hatfield"), had terminated its engagement with the Company, effective December 10, 1999; and (b) defendant Sigfrid had resigned from the position of CFO.

57. The Form 8-K included a letter from Hatfield explaining that the firm had resigned due to (a) material deficiencies with LMG's June 1999 Form S-4 (Registration Statement); and (b) LMG's failure to submit 1998 results for audit. Hatfield indicated that LMG's June 1999 Form S-4 was materially deficient because it did not incorporate by reference the appropriate audited financials. Hatfield further stated that it had not been able to find any evidence that LMG had filed its required Form 10-QSBs for the second and third quarters of 1999.

58. Hatfield described these deficiencies in its letter of termination, included in LMG's January 28, 2000 Form 8-K, as follows:

> In June 1999, Light Management Group, Inc. (formerly Triton Acquisition Corporation) (SEC File #333-79959) (Company) filed a Form S-4, Registration of Securities Issued in a Business Combination Transaction (SEC Registration #002-97360-A).

> Please be advised that this document did not contain an incorporation by reference of the Company's Form 10-KSB filed as of and for the year ended December 31, 1998. Additionally, this firm was not provided a copy of the filing prior to its submission to the U.S. Securities and Exchange Commission as required by our engagement letter with Company dated December 30, 1998 and accordingly, this firm was not requested to and did not provide a consent of independent certified public accountants to be filed as an exhibit in the aforementioned June 1999 Form S-4. It is our opinion and position that the Form S-4, filed in June 1999, is deficient and incomplete based upon the requirements and Regulations of the U.S. Securities and Exchange Commission.
>
> We have searched the U.S. Securities and Exchange Commission EDGAR database and another commercial database and are unable to verify that the Company has filed the required Form 10-QSB as of and for the respective quarters ended June 30, 1999 and September 30, 1999.

59. On February 22, 2000, LMG issued a press release on Business Wire announcing that it had filed for a United States patent for its acousto-optical switch for fiber optic lines. LMG indicated that the acousto-optical switch was state of the art transmission technology that provided advantages in speed, and capacity. The press release indicated that the technology had been developed in the former Soviet Union and brought to North America through the Company's Laser Show Systems (Canada) Ltd. subsidiary. The press release was materially false and misleading because LMG did not provide an update regarding the ongoing litigation concerning that technology, which cost LMG $851,159 in a settlement agreement dated March 10, 2000. These costs were not disclosed until August 22, 2000 when LMG filed its Second Quarter Fiscal 2000 Form 10-QSB.

60. In reaction to LMG's February 22, 2000 press release announcing the patent filing, the price of LMG common stock increased approximately 200% from a closing price of $2.312 per share on February 18, 2000 to close at $6.875 per share on February 22, 2000. As the

news disseminated through the market, the price of LMG common stock reached a class period high of $17.50 per share on March 2, 2000.

61. On March 6, 2000, LMG announced the formation of a wholly owned research subsidiary called Light Research & Development Inc. ("LRD") to be dedicated to the research and development of new optic, laser, and related technologies.

62. On April 14, 2000, LMG filed its Form 10-KSB, signed by defendant Simon, reporting results for fiscal 1999 ("Fiscal 1999 Form 10-KSB"). LMG disclosed for the first time that the funding described in its July 1, 1999 press release had never been completed. The Fiscal 1999 Form 10-KSB indicated that "discussions" with DJL Capital had terminated. LMG further indicated that it was engaging in discussions with other companies to develop the financing of its products. The Form 10-KSB stated:

> Item 6. Management's Discussion and Analysis or Plan of Operation.
>
> The Company has terminated discussions with DJL Capital regarding financing. The Company is currently in discussions with other companies to develop the financing of its products.

63. Prior to this disclosure, there was no indication that the funding, which was to commence in August of 1999 and be completed by the spring of 2000, was not progressing in accordance with LMG's July press release. Defendants LMG, Simon, Iwacha, and Amur clearly knew that financing was not in place by August of 1999, because LMG did not receive any financing payments. Moreover, on August 26, 1999, DJL, which is affiliated with Simon, acknowledged in a private letter that it had not received funding. Therefore, it was not in a position to, and had not, provided funding to LMG.

64. In reaction to the news, the price of LMG's stock declined 25% from $5.16 on April 13, 2000 to an intra-day low of $3 to close at $3.875 on April 14, 2000 on a high volume of 424,000 shares.

65. The Fiscal 1999 Form 10-KSB indicated that the patent litigation involving technology imported from the Soviet Union had been resolved. However, it did not disclose that LMG had incurred settlement and legal costs of $851,159 in connection with the settlement which was dated March 10, 2000. These costs were not disclosed until August 22, 2000 when LMG filed its Second Quarter Fiscal 2000 Form 10-QSB.

66. LMG's Fiscal 1999 Form 10-KSB reported financial results for the year ended December 31, 1999. LMG reported revenues of $1,171,348; total costs and expenses of $772,599 (including depreciation expenses of $54,345; and interest expenses of $40,942); net income of $398,749; and earnings per share of $0.03 (on weighted average number of common shares outstanding 15,568,611). The Fiscal 1999 Form 10-KSB also indicated that Greg Amur was now serving as Chief Financial Officer.

67. The Fiscal 1999 Form 10-KSB filed April 14, 2000 falsely represented that: (a) financial statements were being prepared using GAAP and (b) LMG is generating revenues through operations which "exceed" expected operating expenses. The Form 10-KSB stated:

> The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Previously, the Company had no source of revenue and financial reports included an explanatory paragraph regarding going concern. The Company is now generating revenues through operations which exceed its expected operating expenses for the next twelve months.

68. LMG's Fiscal 1999 Form 10-KSB, filed on April 14, 2000, also falsely represented that: revenues would not be booked unless "there is a realistic expectation of receiving payment" as follows:

> NOTE 2 – ACCOUNTING POLICIES AND PROCEDURES
>
> Accounting polices and procedures have been determined except as follows:
>
> 1. The Company uses the accrual method of accounting, recording revenues when invoiced and there is a realistic expectation of receiving payment.
>
> ***
>
> 8. The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities as at the date of the financial statements and revenues and expenses for the period reported. Actual results may differ from these estimates.

69. In addition, the Fiscal 1999 Form 10-KSB contained an independent auditor's report dated March 16, 2000 from defendant Slayton (LMG's auditor for 1999) which falsely represented that financial results had been fairly presented. The Form 10-KSB stated:

> I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.
>
> In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Light Management Group, Inc., at December 31, 1999, and the results of its operations and cash flows for the year ended in conformity with generally accepted accounting principles.

70. LMG's financial results as reported for 1999 in the Fiscal 1999 Form 10-KSB were materially false and misleading. When financial results were restated for the final time in LMG's Form 10-KSB for fiscal 2000, filed on April 4, 2001, ("Fiscal 2000 Form 10-KSB") LMG reported: sales of only $1,038,216; total operating expense of $2,706,494 (including depreciation and amortization of $100,151; and an interest expense of $62,872); and a net loss of $1,843,464 or $0.12 per share (on weighted average number of common shares outstanding 15,568,611).

71. The Fiscal 2000 Form 10-KSB, restating 1999 results, indicated that the previously reported results had not accounted for: (a) expenses paid by a "related company"; (b) increases in liabilities; and (c) certain fixed assets that had to be reclassified as inventory (depreciation expenses had been overstated). LMG explained the restatement as follows:

> 1999 Accounting Adjustments
>
> In connection with the completion of the 2000 audit, the Company identified various adjustments as follows: expenses paid for by a related company; an increase in accrued liabilities; and a change in depreciation because of a reclassification of fixed assets to inventory. As a result, the Company recorded adjustments decreasing sales by $23,356, increasing selling, general and administrative expenses for $1,748,147, decreasing depreciation expense by $50,571 and increasing other expense by $18,156. Additionally, the Company's stockholders' equity decreased by $1,739,088 as a result of these adjustments.

All of the circumstances disclosed in the restated results were in existence at the time that financial results for the quarter were originally reported.

72. Defendants LMG, Simon, and Amur disseminated materially false and misleading financial results for 1999 in an attempt to maintain the price of the stock while releasing the bad news that LMG had not received financing as promised in July of 1999. On April 14, 2000, LMG common stock closed at a price of $3.875 per share. On the last day of the Class Period,

after restated financial results for 1999 and subsequent periods had been disclosed, LMG closed at a price of $0.450 per share (a decline of 88%).

73. On May 23, 2000, LMG filed its Form 10-QSB, signed by Iwacha, reporting financial results for the three month period ended March 31, 2000 ("First Quarter Fiscal 2000 Form 10-QSB"). LMG reported: revenue of $597,193; total operating expenses of $1,117,474; and a net loss of $520,044 ($0.03 per share).

74. The First Quarter Fiscal 2000 Form 10-QSB included a letter signed by the Company's auditor, Slayton, stating that based upon his review that he believed the financial statement of LMG contained no material misrepresentations which would cause them to be non-compliant with GAAP. The letter, dated May 16, 2000, stated:

> I have reviewed the accompanying consolidated balance sheet of Light Management Group Inc., as of March 31, 2000, and the related consolidated statements of income, retained earnings and cash flows for the period then ended March 31, 2000, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Light Management Group, Inc.
>
> A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope that an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.
>
> Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

75. LMG's First Quarter Fiscal 2000 Form 10-QSB reporting financial results for the first quarter of 2000, and the Auditor's Report signed by Slayton contained therein, were materially false and misleading. Financial results for the first quarter of 2000 were materially

misrepresented therein. Sales were overstated by 50% ($298,262). SG&A expenses were understated by 295% ($1,387,580). Net losses were understated by over 300% ($1,578,520) ($0.09 per share). The following year, the financial results for the March 31, 2000 quarter were restated as described above.

76. The First Quarter Fiscal 2000 Form 10-QSB indicated that the patent litigation involving technology imported from the Soviet Union had been resolved. However, it did not disclose that LMG had incurred settlement and legal costs of $851,159 in connection with the settlement which had been executed on March 10, 2000. These costs were not disclosed until August 22, 2000 when LMG filed its Second Quarter Fiscal 2000 Form 10-QSB.

77. One May 23, 2000, the price of LMG common stock closed at $3.062 per share. The average closing price for LMG for the five trading days following the filing of the first quarter Form 10-QSB was $2.9248 (a decline of 4.48%). After restated results for the same period were disclosed on May 24, 2001, LMG traded for an average closing price of $1.228 (between May 25, 2001 and June 1, 2001) – a decline of 58%.

78. On August 22, 2000, LMG filed its Form 10-QSB, signed by Iwacha, which reported financial results for the six month period ended June 30, 2000 ("Second Quarter 2000 Form 10-QSB"). LMG represented that sales had increased over the same period in the previous year to $1.08 million.

79. The Second Quarter 2000 Form 10-QSB represented that the financial statements contained therein had been prepared according to GAAP as practiced in the United States and Canada:

> 15. DIFFERENCES BETWEEN CANADIAN AND UNTIED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

> These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The principles adopted in these financial statements conform in all material respects to those generally accepted in the United States except as follows.

80. LMG's Second Quarter Fiscal 2000 Form 10-QSB was materially false and misleading. LMG later admitted, in its Form 10-QSB/A00 filed on August 15, 2001, that: (a) sales had been improperly booked; (b) inventory had been improperly classified as property and equipment; and (c) LMG had failed to account for shares issued as compensation. Sales were overstated by 67% ($729,045). SG&A expenses were understated by 120% ($1,380,437). Total operating expenses were understated by 40% (873,141). Losses were understated by 85% ($1,283,400) ($0.06 per share). The following year financial results for the quarter were restated as described above.

81. The Second Quarter 2000 Form 10-QSB disclosed for the first time that LMG had incurred settlement and legal costs of $851,159 in connection with the March 10, 2000 settlement of litigation regarding ownership of technology imported from the Soviet Union.

82. On August 22, 2000, LMG common stock closed at a price of $2.50 per share.

83. On October 12, 2000, LMG issued a press release announcing a contract for the sale of RGB Laser Projection Systems with a marketing company called Amplified valued at $22 million. This press release indicated for the first time that the revenue stream referred to at the start of the Class Period was coming from a single source. Under the agreement, Amplified agreed to purchase a minimum of 10 RGB systems a year over the course of the next ten years. The press release also announced that Amplified had reached an agreement with the City of Toronto for the immediate installation of one of LMG's RGB Laser Projection Systems.

84. The October 12, 2000 press release stated:

> Light Management Group Inc. (OTCBB:LMGR) is pleased to announce that Amplified Light Technologies Corporation ("Amplified") has made an agreement with the City of Toronto for the immediate installation of one of LMG's RGB Laser Projection Systems.
>
> The system will be placed in The Great Hall of Toronto's Union Station on Front Street in the first week of November, 2000. This Toronto Union Station contract comes as part of a recently finalized $22 million deal LMGR has signed with Amplified – an Oakville, Ontario-based marketing company – whereby Amplified agreed to purchase a minimum of 10 RGB systems a year over the course of the next ten years. A second installation will be announced shortly.
>
> Barrington Simon, CEO of LMGR, notes, "this agreement with Amplified serves the double purpose of generating significant revenue for the company and greatly expanding awareness of LMGR's technology among advertisers and venue-marketers throughout North America," adding that "Amplified's management and sales organization is superbly fitted to advance LMGR's strategy of combining high-end technology development with profitable growth. We're very happy that we are going forward and bringing our RGB Laser Systems to the market. We are already seeing the fruits of this relationship."

This press release was issued on three wire services: <u>Business Wire</u>; <u>Canadian Corporate Newswire</u>; and <u>CCN Disclosure</u>.

85. The October 12, 2000 press release was materially false and misleading because it failed to disclose that Amplified was an entity constructed by persons affiliated with Simon for the purpose of enriching Simon and his affiliates at the expense of LMG and its shareholders and supporting LMG's claim at the start of the Class Period to have backlogged orders of more than $20 million.

86. The press release did not disclose that Amplified had been formed on September 20, 2000 using directors related to Simon: President, Elizabeth Dolores Leblanc, Simon's sister; Cristina Pereira Santos, Operated Mercator Securities – Bahamas (an entity in which Simon had

an ownership interest); and Manuel Santos (Pereira's Husband). By selling projection systems to Amplified who would make a profit in connection with their distribution to customers, Simon was essentially steering profits away from publically held LMG in favor of his own affiliates. Simon's affiliation to Amplified was never publically disclosed in LMG's press releases of SEC filings.

87. LMG's Form 10-QSB, filed on December 11, 2000, indicated that LMG had outstanding accounts receivable totaling only $2,152,434 due from Amplified – "the sole distributor of the company's RGB laser projection system." LMG's Form 10-QSB states:

> 3. ACCOUNTS RECEIVABLE AND ECONOMIC DEPENDENCE
>
> 'Included in the accounts receivable is the amount of $2,152,434 due from the sole distributor of the company's RGB laser projection system. The distributor has not fully paid the invoice due to manufacturing and installation delays. As the difficulties have been resolved and the company wishes to continue business with the distributor, it has extended credit on these amounts which are to paid in full no later than June 30, 2001.

88. On November 20, 2000, LMG filed its Form 10-QSB, signed by defendant Iwacha, reporting financial results for the third quarter ended September 30, 2000 ("Third Quarter Fiscal 2000 Form 10-QSB"). LMG reported third quarter sales of $550,907; expenses of $609,596; and a loss of $349,436 ($0.021 per share). LMG did not report comparative results for the third quarter. The Third Quarter Fiscal 2000 Form 10-QSB noted that sales had increased substantially:

> The Company generated sales of $550,907 and $1,635,045 for the three and nine month periods ended September 30, 2000, respectively. These amounts represent an increase in sales from the $1,061,572 generated for the fiscal year ended September 30, 1999. A corollary to the Company's increased sales is increased expenses, which were $609,596 for the quarter ended September 30, 2000, and $1,756,553 for the nine months ended September 30, 2000. The expenses incurred for the fiscal year ended December 31, 1999, were $870,743. These sales and expenses resulted in the

> Company's loss for the quarter and nine months ended September 30, 2000, of $349,001 and $1,859,456, respectfully, as compared to the loss for the year ended December 31, 1999, of $104,376.

89. The financial results published in LMG's Form 10-QSB were materially false and misleading. LMG's Form 10-QSB for third quarter of 2001 filed on November 19, 2001, which restated results for the third quarter 2000, disclosed that: (a) sales had been improperly booked; (b) inventory had been improperly classified as property and equipment; and (c) LMG had failed to account for shares issued as compensation. Sales were overstated by 67% ($1,101,683). Total operating expenses were understated by 108% ($1,905,472). Losses were understated by 85% ($1,283,400) ($0.06 per share). Financial results for the quarter were restated as described above:

90. On November 20, 2000, LMG common stock closed at a price of $1.375 per share. The average closing price for LMG for the five trading days following the filing of the third quarter Form 10-QSB was $1.1002 per share (November 21 – 28, 2000) – a decline of 20% from November 20, 2000. After restated results for the same period were disclosed on November 19, 2001, LMG traded for an average closing price of $1.672 (between November 20 – 27, 2001) – decline of 34% from November 20, 2000.

91. On December 11, 2000, LMG filed a Form 8-K disclosing that its Board of Directors had changed auditors from Slayton to Feldman Sherb for the year ended December 31, 2000. The disclosure of this change came two months after this material event.

92. The Form 8-K stated that: "[t]he Company decided to change auditors because it sought a greater international experience than its pervious auditor." LMG further indicated that: (a) Slayton's reports for the past two years had contained no adverse opinions; and (b) there had been no disagreements between Slayton and LMG.

93. The Form 8-K further indicated that Feldman Sherb had found immaterial flaws with Slayton's 1999 audit, but that the Company was confident that there were no material errors with those results. The Form 8-K stated:

> In the course of reviewing documentation relating to services to be rendered in conjunction with the audit for the fiscal year ended December 31, 2000, Feldman Sherb discovered an insignificant and immaterial error in the 1999 audit. The Company's par value was listed as $0.02 instead of $0.0001 per share. Therefore, the correct stated capital, as of September 30, 2000 and December 31, 1999, is $1688 and $1618, respectively.
>
> Feldman Sherb will be auditing the fiscal year ended December 31, 1999 to ensure no other errors are contained in the audit. The Company believes the financial statements contained in its Form 10-KSB for the year ended December 31, 1999, are materially accurate, even though the par value and stated capital are incorrect. The erroneous par value has no impact whatsoever on the Company's net loss for the year ended December 31, 1999.

94. LMG's representation that "[t]he Company believes the financial statements contained in its Form 10-KSB for the year ended December 31, 1999, are materially accurate" was materially false and misleading because 1999 results had not been fairly presented in accordance with GAAP.

95. In addition, LMG's Form 8-K falsely represented that fiscal 1999 would be reaudited by Feldman Sherb. However, LMG's Form 10-KSB (filed on April 24, 2000) included a letter dated March 19, 2000 from Slayton indicating that the restated results for 1999 were based on his audit.

96. On December 11, 2000, LMG common stock closed at a price of $3.437 per share. The average closing price for LMG for the five trading days following the filing of the third quarter Form 10-QSB was $2.98 per share (December 12 - December 18, 2000) – a decline of 13% from December 10, 2000.

97. In March of 2001, the Company settled $3,200,000 of its loans payable to Omega (a Company in which defendant Simon holds a 38% interest), by issuing 2,766,798 shares of Series A cumulative Preferred Stock convertible into common stock on a one-for-one basis (each preferred share had 2.5 votes). In addition, LMG settled an additional $1,600,000 of its loans payable to Omega by issuing 1,855,072 shares of common stock valued at $2,365,00. These material facts should have been reported in LMG's Form 10-K for fiscal 2000 (filed on April 24, 2001). However, disclosure was not made until LMG submitted an amended filing for fiscal 2000 on June 22, 2001.

98. On March 29, 2001, LMG filed a Form 8-K A00 which contained a letter from Slayton commenting on his termination as auditor. This letter, which is required by the SEC, indicated that Slayton had been terminated on October 9, 2000. In addition, Slayton represented that he did not have "any disagreements" with management concerning LMG's 1999 financial statements during the audit.

99. On April 4, 2001, LMG issued a press release on Business Wire announcing the appointment of Malcolm Steven as the firm's new Vice-President, Sales & Marketing – Canadian and European markets. The press release contained a quote from Steven which deceptively indicated that LMG was poised for success:

> In exercising due diligence while researching LMG's annual report and in witnessing its recent successes, it is clear that LMG is on the cutting edge of new optical technologies."
>
> The expected growth of the company is phenomenal and the application of its technologies has tremendous widespread potential. I strongly believe that LMG will provide an excellent avenue from which to implement my experience in advertising and technology.

100. On April 4, 2002, the price of LMG common stock reached an intra day high of $1.62 per share an increase of 7.4% from its opening price of $1.50 per share. LMG closed at a price of $1.469 per share.

101. The price of LMG common stock reached its low closing price for the month of April on April 11, 2002, when it closed at a price of $1.380 per share. Shortly thereafter, LMG began to issue positive press releases which inflated and supported the price of the stock.

102. On April 19, 2001, LMG issued a press release on Business Wire announcing that it had signed a letter of intent with France Telecom to test Light Management Group's acousto-optic switch. The price of LMG common stock closed at $1.860 per share (after reaching an intra day trading high of $2.00 per share on a high volume of 357,900 shares). This represented a 26% increase in the price from the closing price on the previous day of $1.480 per share.

103. On April 20, 2001, LMG issued a press release on Business Wire announcing the creation of its new subsidiary, Optico Luz (Optical Light) SA "to capitalize and enhance the tremendous growth of the fiber optical and telecommunications industry in South America and other Spanish-speaking countries with emphasis on Mexico, Brazil, Argentina, Venezuela and Chile." In connection with the announcement, Simon stated that: "Optico Luz SA presents great opportunities to build strategic partnering and revenue generating projects as well as the ability to integrate our products worldwide."

104. On April 20, 2001, the price of LMG common stock reached an intra day trading high of $1.980 per share (an increase of 6.5% over the previous day's closing price of $1.860 per share) to close at $1.720 per share on higher than average volume of 123,800 shares.

105. On April 23, 2001, LMG issued a press release on Business Wire announcing its attendance at Supercomm and the Conference of Lasers and Electro-Optics Exhibitions at the

Georgia World Congress Center in Atlanta and the Conference of Lasers and Electro-Optics (CLEO). The press release contained comments from management which emphasized the success of LMG's strategic plan for 2001:

> "Participation in these two shows marks a positive reflection of our strategic plan for 2001," said Malcolm Steven, Vice President – Sales & Marketing, Canadian and European Markets. "The natural progression from the Anaheim show to Supercomm and CLEO will allow us to ramp up our efforts for name recognition and product awareness. These two shows will be excellent avenues for forging more business relationships."
>
> "Light Management Group is looking forward to building on our success realized at the OFC conference in Anaheim during March," said Barrington L. Simon, CEO & Chairman, Light Management Group Inc. "The efforts of our Atlanta office in securing LMG's participation at Supercomm is demonstrative of the high level of efficiency that the new office has reached in very short order."

This nationwide press release made no mention of LMG's disappointing year end results for 2000, which were disseminated with far less fanfare and to a much smaller audience in an SEC filing.

106. On April 23, 2001, the price of LMG common stock reached an intra-day trading high of $1.840 per share to close at $1.670 per share on volume of 40,100 shares.

107. On April 24, 2001, LMG filed its Fiscal 2000 Form 10-KSB which reported financial results for the year 2000 and restated financial results for 1999. LMG disclosed financial results through its SEC filing rather than through a widely disseminated <u>Business Wire</u> press release. LMG reported revenues of $711,630 for the year ended December 31, 2000, a substantial decline from the previous year's revenues of $1,038,216 for the fiscal year ended December 31, 1999. LMG reported a net loss for the fiscal year ended December 31, 2000, of $7,590,405 ($0.39 per share), as compared to a loss of $1,843,464 ($0.12 per share) for the year ended December 31, 1999.

108. The decrease in revenues was attributed to "the result of a[n] economic slowdown and represents a decrease in revenue from the Company's sole source of revenue for 1999, which was offset by revenue generated from operations of Exclusive Advertising, which was acquired in March 2000." LMG further stated that "we expect to experience greater revenues in 2001 because Exclusive Advertising has already rebounded from the economic cooling of 2000."

109. LMG's Fiscal 2000 Form 10-KSB reported a substantial increase in expenses for 2000. Reported expenses increased 180% to $7,574,445 from $2,706,494 for 1999. The increase was attributed to the increased value of securities by $2.1 million granted as non-cash compensation to a member of LMG's management, and a one-time consulting fee of $1.8 million "not expected to be incurred in the future." LMG falsely indicated that a proper accounting had been made for all expenses for the year 2000. The Fiscal Form 10-K stated:

> The expenses incurred by the Company for its fiscal year ended December 31, 1999 were $2,706,494 compared to $7,574,445 for the year ended December 31, 2000. These increased expenses include $4,394,413 in non-cash compensation, which include a charge of $2,128,000 constituting the excess of market price over the exercise price of options granted to a member of LMG's management as well as a charge for consulting fees of $1,804,001, which relate to certain consulting services which are not expected to be incurred in the future. These increased expenses, most of which LMG believes are non-recurring, as compared to LMG's revenues, resulted in a net loss for the fiscal year ended December 31, 2000, of $7,590,405, as compared to a loss of $1,843,464 for the year ended December 31, 1999.

110. The Form 10-KSB contained an Independent Auditor's Report by LMG's accountant, Feldman Sherb, dated April 12, 2001, which falsely stated that the financial results for 2000 were presented "fairly, in all material respects" and in accordance with GAAP as follows:

> We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the

> financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
>
> In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Light Management Group, Inc. and subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

The auditors also issued a "going concern" warning indicating that the Company's losses and cash flow deficiency created "substantial doubt about the Company's ability to continue as a going concern."

111. The Fiscal 2000 Form 10-KSB, filed April 24, 2001, restated financial results for 1999 once again as follows:

1999 FINANCIAL RESULTS	Restated Results	Restated Results
Filing Date	04/24/01	05/11/00
Source	10-KSB for 12/31/00	10-KSB for 12/31/99
SALES	1,038,216	1,061,572
GROSS PROFIT	925,902	104,376
TOTAL OPERATING EXPENSES	2,706,494	1,165,948.00
INTEREST EXPENSE	62,872	
NET LOSS	(1,843,464)	$104,376.00
NET LOSS PER SHARE	$0.12	$0.01

112. The Fiscal 2000 Form 10-KSB indicated that the previously reported 1999 results had not accounted for expenses paid by a "related company," increases in liabilities, and that certain fixed assets had to be reclassified as inventory (thus leading to a decrease in depreciation expenses). LMG explained the restatement as follows:

> 1999 Accounting Adjustments

> In connection with the completion of the 2000 audit, the Company identified various adjustments as follows: expenses paid for by a related company; an increase in accrued liabilities; and a change in depreciation because of a reclassification of fixed assets to inventory. As a result, the Company recorded adjustments decreasing sales by $23,356, increasing selling, general and administrative expenses for $1,748,147, decreasing depreciation expense by $50,571 and increasing other expense by $18,156. Additionally, the Company's stockholders' equity decreased by $1,739,088 as a result of these adjustments.

All of the circumstances disclosed in the restated results were in existence at the time that financial results for the quarter were originally reported.

113. The Form 10-K indicated that LMG had changed auditors by replacing James E. Slayton, C.P.A. with Feldman Sherb. LMG indicated that the change had been made because Feldman Sherb had "greater international experience."

114. The auditor's opinion in the Fiscal 2000 Form 10-KSB regarding the 1999 restated results was issued by Slayton dated March 19, 2000. Slayton and LMG indicated that 1999 results had been fairly represented without material error in accordance with GAAP as follows:

> I conducted my audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.
>
> In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Light Management Group, Inc. and subsidiaries as of December 31, 1999, and the results of their operations, and their cash flows for the year then ended in conformity with generally accepted accounting principles.

115. LMG's Fiscal 2000 Form 10-KSB, filed April 24, 2001, reporting results for 2000 were materially false and misleading. On May 2, 2001, LMG reported a restated net loss for fiscal 2000 of $9,357,186 (a $1,766,781 greater loss than originally reported). The amended Form 10-KSB/A indicated that the previously published results had failed to account for: (a) expenses paid by an unnamed "related company" ($327,185); (b) a $1.43 million decline in the value of notes payable on demand in connection with borrowings from the same unnamed entity; and (c) the disclosure of the conversion of $1.6 million in debt into common stock.

116. On April 25, 2001, LMG issued a press release on Business Wire announcing that it signed a Letter of Intent with FibreWired Burlington Hydro Communications to provide LMG's innovative acousto-optic switches for assessment in connection with the public utility and communications company. The press release stated that: "[t]he Letter of Intent provides significant evidence of increasing industry interest in LMG's acousto-optic technology; interest which is growing rapidly both in North America as well as internationally.

117. On May 24, 2001, LMG filed its Form 10-QSB reporting financial results for the three month period ended March 31, 2001 and restating results for the first quarter of 2000 ("First Quarter Fiscal 2001 10-QSB"). LMG reported sales revenues of $427,797 for its first quarter ended March 31, 2001, as compared to $298,931 for the quarter ended March 31, 2000. This increase in revenues was attributed to additional revenue generated from operations of Exclusive Advertising.

118. The First Quarter Fiscal 2001 10-QSB restated results for the first quarter of 2000 as follows:

	3 Months Ended 3/30/2000	Restated 3 Months Ended 3/30/2000	RESTATED HIGHER (LOWER)	% Increase (Decrease)
Source	10-QSB	10-QSB		
Filing Date	5/23/00	5/24/01		
SALES	597,193	298,931	-298,262	-50%
EXPENSES SG&A	469,832	1,857,412	1,387,580	295%
Depreciation & Amortization	57,134	62,362	5,228	9.1%
TOTAL OPERATING EXPENSES	1,117,474	2,345,136	1,227,662	11%
NET LOSS	520,044	2,098,564	1,578,520	303%
NET LOSS PER SHARE-BASIC AND DILUTED	$0.03	$0.12	$0.09	300%

119. The First Quarter Fiscal 2001 10-QSB restated results by reversing sales and accounting for additional shares issued in exchange for services. The Form 10-QSB described the march restatement as follows:

> 4. MARCH 2000 RESTATEMENT
>
> ----------------------------
>
> The financial statements for the three months ended March 31, 2000 have been restated to reflect adjustments noted by the Company during the preparation of its year ending December 31, 2000 financial statements. The restatement is principally related to the issuance of shares of the Company's common stock for services, and the reversal of sales revenue. The effect on the previously reported results was to decrease sales by $298,000, increase total expenses by $1,280,000 and increase net loss by $1,578,000. Basic and diluted loss per share increased by ($0.09) to ($0.12).

120. On May 31, 2001, LMG announced, on <u>Fiber Optics Business</u>, the creation of a new subsidiary, Optico Luz (Optical Light) SA. The press release stated that the subsidiary would "position itself to capitalize and enhance the tremendous growth of the fiber optical and

telecommunications industry in South America and other Spanish-speaking countries, with emphasis on Mexico, Brazil, Argentina, Venezuela, and Chile."

121. On June 4, 2001, LMG issued a press release on Business Wire announcing that Boeing had agreed to evaluate LMG's innovative acousto-optic switches for potential application to Boeing products. The first press release was followed by a second nationwide press release on the same day which indicated that Iwacha would be appearing on television with a simultaneous Internet broadcast to "discuss recent developments for LMG and the current state of company activity."

122. LMG's second June 4, 2001 press release headlined "Light Management Group Inc. – LMG-Remarks on Significance of Boeing Pact; President Dr. Don Iwacha Appearing on Television, Internet" deceptively indicated that the Company was well positioned to establish "establishment of alliances and relationships" as follows:

> Light Management is delighted to have secured an agreement with a company of the magnitude and significance of Boeing.
>
> Boeing's venture into the field of communications represents significant applications potential for Light Management's acousto-optic technology. At the same time, Light Management also remains aggressively committed to the establishment of alliances and relationships with attractive emerging and growing companies.

123. On June 4, 2001, the price of LMG common stock increased 37% to $1.650 per share from a closing price of $1.20 per share on high volume of 260,200.

124. On June 6, 2001, LMG announced, via Business Wire, that it had signed a Letter of Intent with French laser technology distributor Opton Laser International (OLI) whereby OLI agreed to assess LMG's patent pending acousto-optic technology for potential application for distribution by OLI.

125. In connection with the announcement, Simon deceptively indicated that LMG had "laid the foundation" for "aggressive" worldwide growth as follows:

> The establishment of Light Management's first European distributor is consistent with our vision of developing our products for worldwide application.
>
> LMG has now laid the foundation for aggressive business activity in three continents; we will continue to embrace our objective for heightened name recognition and product awareness globally.

126. On June 6, 2001, LMG closed at a price of $1.620 per share.

127. On June 22, 2001, LMG filed an amended Form 10-KSB/A which restated year end results for 2000 ("Amended Fiscal 2000 Form 10-KSB/A"). LMG chose to disseminate the news of the restatement by SEC filing. There were no nationwide press releases issued.

128. LMG reported a restated net loss for the year 2000 of $9,357,186 (a $1,766,781 greater loss than originally reported). The Amended Fiscal 2000 Form 10-KSB/A indicated that the previously published results had failed to account for: (a) expenses ($327,185) paid by an unnamed "related company" (Omega); (b) a $1.43 million decline in the value of notes payable on demand in connection with borrowings from the same unnamed entity; and (c) the disclosure of the conversion of $1.6 million in debt into common stock. These transactions occurred in March and, therefore, should have been included in LMG's original Fiscal 2000 Form 10-KSB filed in April of 2001.

129. The Amended Fiscal 2000 Form 10-KSB explained the nature of these transactions as follows:

> Item 12. Certain Relationships and Related Transactions
>
> During 1999 and 2000, Barrington Simon has advanced LMG monies as unsecured loans which equate to Twenty-One Thousand Five Hundred Ninety and 58/100's Dollars (US$21,590.58). These monies are considered loans payable by the Company and do not bear interest.

> Between September 16, 1998 and September 1, 2000, Omega Holdings, Bahamas, Ltd. lent the Company US$3.1 million as working capital. This loan accrues approximately 6% interest. In March 2001, the Company settled $3,200,000 of its loans payable to a Company in which the Company's principal shareholder and Chief Executive Officer is also a shareholder by issuing 2,766,798 shares of Series A Preferred Stock. Each share of Preferred Stock is convertible into one share of Common Stock at any time by the holder.
>
> In September 2000, Omega Holdings, Bahamas, Ltd. paid approximately US$1.6 million dollars to satisfy a debt owed by the Company to a third party. This loan accrued approximately a 6% interest. In March 2001, the Company settled this $1,600,000 loan payable by issuing Omega 1,855,072 shares of Common Stock.

130. The Amended Fiscal 2000 Form 10-KSB also explained the adjustment to LMG's financial statements as follows:

> Results of Operations
>
> 2000 Accounting Adjustments
> Subsequent to the completion of its 2000 audit, the Company identified $327,185 of expenses, which were paid for by a related company. In addition, the company had recorded a discount to notes payable of $1,439,586 related to the issuance of warrants in connection with borrowings from such entity. Since the loans were due upon demand, the Company has restated its financial statements to record an expense for such discount in the year ended December 31, 2000. In addition, the Company has included the disclosure of the conversion in March 2001, of $1,600,000 of debt into shares of its common stock, which was not previously disclosed.

131. A "going concern" warning from LMG's new accountant Feldman Sherb was also included in the amended filing. The Amended Fiscal 2000 Form 10-KSB/A stated:

> The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1(a) to the financial statements, the Company has incurred net losses of approximately $9,360,000 and $1,843,000 for the years ended December 31, 2000 and 1999, respectively. Additionally, the Company had a working capital deficiency of approximately $3,462,000 at December 31, 2000,

> which creates substantial doubt about the Company's ability to continue as a going concern.

132. In reaction to the news, the price of LMG's common stock declined to a closing price of $1.180 on June 25, 2001 (the trading day following LMG's submission of its restated results to the SEC). This was a percentage decline of 6% from a closing price of $1.250 on June 22, 2001 (the previous trading day).

133. On July 2, 2001, the Company announced that it had secured a line of credit for an "undisclosed amount" with Citizens Banking Corporation to finance operational expenses.

134. On July 27, 2001, Light Management announced that defendant Simon had resigned from the position of Chief Executive Officer. Simon was replaced by defendant Iwacha who has continued to serve as President of the Company. Simon has retained his position as Chairman of the Board.

135. On August 15, 2001, LMG filed its Form 10-QSB, signed by defendant Iwacha, reporting financial results for the second quarter and six month period ended June 30, 2001 ("Second Quarter Fiscal 2001 Form 10-QSB"). LMG also restated financial results for the same period in the previous year, Fiscal 2000. For the second quarter of 2001, LMG reported sales of $273,436, and a net loss of $1,401,805 ($0.06 per share), as compared to sales of $56,162 and a net loss of $694,856 ($0.04 per share) for the same period in 2000. For the six month period ended June 30, 2001, LMG reported sales of $701,233 and a net loss of $2,681,912 ($0.13 per share), as compared to sales of $355,093, and a net loss of $2,793,420 ($0.15 per share) for the six month period ended June 30, 2000.

136. The Second Quarter Fiscal 2001 Form 10-QSB restated financial results for the six month period ended June 30, 2000 as follows:

	6 Months Ended 6/30/2000	Restated 6 Months Ended 6/30/2000	Higher (Lower)	% Increase (Decrease)
Source	10-Q00	10-QSB		
Filing Date	8/22/00	8/15/01		
Sales	1,084,138	355,093	(729,045)	-67%
Cost of Sales	596,042	78,859	(517,183)	-87%
Gross Profit	488,096	276,234	(211,862)	-43%
Expenses SG&A	1,146,957	2,527,394	1,380,437	120%
Litig. Settlement	851,159	390,384	(460,775)	-54%
Depreciation and Amortization	171,622	125,101	(46,521)	27%
Total Operating Expenses	2,169,738	3,042,879	873,141	40%
Loss from Operations	658,861	2,766,645	2,107,784	320%
Net Loss	1,510,020	2,793,420	1,283,400	85%
Net Loss per Share – Basic and Diluted	$0.09	$0.15	($0.06)	-66%

137. The Second Quarter Fiscal 2001 Form 10-QSB indicated that the previously reported results for Fiscal 2000 had been misstated by: (a) inappropriately booked sales; (b) improper classification of inventory as property and equipment; and (c) a failure to account for the issuance of shares of the Company's common stock in exchange for services. The Second Quarter Fiscal 2001 Form 10-QSB stated:

> JUNE 2000 RESTATEMENT
>
> The financial statements for the six months ended June 30, 2000 have been restated to reflect adjustments noted by the Company during the preparation of its year ending December 31, 2000 financial statements. The restatement is principally related to the issuance of shares of the Company's common stock for services, and the reversal of sales revenue and the reclassification of certain inventory previously classified as property and equipment. The effect on the previously reported results was to decrease sales by $729,045, increase total expenses by $554,355 and increase net loss by $1,283,400. Basic and diluted loss per share increased by ($0.04) to ($0.13).

138. On August 16, 2001, the day after the Second Quarter Fiscal 2001 Form 10-QSB was filed, LMG closed at a price of $0.60 per share, a decline of 4.76% from the previous day.

139. On November 19, 2001, LMG filed its Form 10-QSB, for the nine month period ended September 30, 2001 ("Third Quarter Fiscal 2001 Form 10-QSB"). The Company reported sales of $255,019 for its quarter ended September 30, 2001, as compared to $178,269 for the quarter ended September 30, 2000. Operating expenses increased from $619,146 for the quarter ended September 30, 2000 to $1,139,274 for the third quarter of the year 2001. This increase was primarily attributable to additional fees paid to independent professionals and consultants. The increase in total operating expenses resulted in an increase in the net loss for the quarter ended September 30, 2001 to $980,199 ($0.05 per share), as compared to a net loss of $682,002 ($0.03) for the same period in 2000.

140. The Third Quarter Fiscal 2001 Form 10-QSB reiterated the going concern warning previously issued in the Company's audited results stating that: "The Company has had recurring losses, which raises substantial doubt about the Company's ability to continue as a going concern." LMG further indicated plans to support operations through equity or debt financing until achieving profitable operations.

141. LMG's Third Quarter Fiscal 2001 Form 10-QSB restated financial results for the nine month period ended September 30, 2000. LMG reversed sales, reclassified property and equipment as inventory, and accounted for shares issued as compensation. Results for the nine month period ended September 30, 2000 were restated as follows:

	9 Months Ended 9/30/2000	Restated 9 Months Ended 9/30/2000	Restated Higher (Lower)	% Increase (Decrease)
Source	10-Q00	10-QSB		
Filing Date	11/20/00	11/19/01		
Sales	1,635,045	533,362	(1,101,683)	-67%
Cost of Sales	886,354	319,628	(566,726)	64%
Gross Profit	748,691	213,734	(534,957)	-71%
Expenses SG&A	NA	3,073,713		
Total Operating Expenses	1,756,553	3,662,025	1,905,472	108%
Loss from Operations	NA	3,448,291		
Net Loss	1,859,456	3,475,422	1,615,966	87%
Net Loss per Share	0.11	0.18	(0.07)	64%

142. LMG's Third Quarter Fiscal 2001 Form 10-QSB explained the restatement as follows:

> 4. SEPTEMBER 2000 RESTATEMENT
>
> The financial statements for the nine months ended September 30, 2000 have been restated to reflect adjustments noted by the Company during the preparation of its year ending December 31, 2000 financial statements. The restatement is principally related to the issuance of shares of the Company's common stock for services, and the reversal of sales revenue and the reclassification of certain inventory previously classified as property and equipment. The effect on the previously reported results was to decrease sales by $1,101,683, increase total expense by $514,283 and increase net loss by $1,615,966. Basic and diluted loss per share increased by ($0.07) to ($0.18).

143. On November 20, 2001, after the release of restated financial results for the nine month period ended September 30, 2000, the price of LMG common stock closed at $0.450 per share. This represents a declined 67% from $1.375 (the closing price on November 20, 2000, the date on which LMG released artificially inflated results for the same period); and a 99% decline from LMG's class period high of $17.50 per share (March 2, 2000).

INSIDER SELLING DURING THE CLASS PERIOD

144. During the Class Period, defendant Simon, as the 38% owner of Omega, sold substantial quantities of LMG common stock, while the price was artificially inflated by LMG's false and misleading statements.[5] During the Class Period, Omega sold approximately 2,706,762 shares of LMG common stock for proceeds of approximately $5.095 million (net of offsetting purchases). Defendant Simon, as the 38% owner of Omega, benefitted by approximately $1.936 million.

145. In Fiscal 1999, Omega sold 1,553,432 shares of LMG common stock for proceeds of approximately $919,125 (net of offsetting purchases). Defendant Simon, as the 38% owner of Omega, benefitted by approximately $349,278.

146. The following chart lists Omega's trades in LMG common stock for fiscal 1999:

Settlement Date*	Number of Shares Purchased	Number of Shares Sold	Price (estimated) ($)	Net Cost ($)	Net Proceeds ($)
05/26/99		100	7.0000		700.00
5/28/99		2350	6.8750-7.4370		16618.6
06/10/99	500		7.5620	3,781.00	
06/15/99	9,500		3.6250-6.3120	36968.5	
06/17/99	500		5.5620	2,781.00	
06/18/99	600		7.6250	4,575.00	
06/21/99	1,500		6.000-6.0310	9,031.00	
06/25/99	200		4.0000	800.00	
06/28/99	200		4.5000	900.00	
06/29/99	2,500		7.312	18,280.00	
06/01/99		1,620	7.6870		12,452.94
06/03/99		1,450	7.6870		11,146.15
06/04/99		1,950	7.6870		14,989.65
06/07/99		3,290	8.1870		26,935.23
06/07/99		2,030	7.9800		16,199.40
06/07/99		2,000	8.0620		16,124.00
06/07/99		516	8.0000		4,128.00
06/28/99		2,650.00	4.000-4.8120		11,412.00
06/29/99		6,100	3.5000		21,350.00

[5] Plaintiff was unable to obtain records of transactions, if any, in 2001. These sales should have been disclosed in SEC filings. A search of LEXIS/NEXIS data bases shows no filings for Omega in 2001. However, in light of the failure of Omega, LMG, and Simon to properly disclose sales in 1999 and 2000, plaintiff believes that additional sales may have also taken place in 2001.

07/12/99	200		2.8750		575.00
07/13/99	1,000		3.0000		3,000.00
07/14/99	300		2.8750	862.50	
07/20/99	200		2.8750		575.00
07/27/99	1,000		2.7180		2,718.00
07/28/99	7,087		2.8120		19,928.64
07/30/99	200		8.7000		1,740.00
07/07/99		2,700	2.4370		6,579.90
07/08/99		2,700	2.687-2.120		7,304.90
07/09/99		5,400	2.8120		15,184.80
07/13/99		526	2.5620		1,347.61
07/21/99		19,000	2.5-3.000		55,365.20
07/26/99		200	2.8750		575.00
08/16/99	1,333		3.062-5.062	5,081.65	
08/18/99	6,200		3.6	22,320.00	
08/23/99	1,000		1.75	1,750.00	
08/24/99	2,500		0.75	1,875.00	
08/25/99	1,000		1.062	1,062.00	
08/30/99	8,092		1.031-1.5	9,714.50	
08/31/99	5,000		1.312-1.562	7,123.00	
08/16/99		1,400	1.5620		2,186.80
08/20/99		1,250	1.5000		1,875.00
08/24/99		2,000	0.7500		1,500.00
08/25/99		49000	.8000-1.0310		472,400
08/30/99		63,300	.800-1.406		63,487.00
09/01/99	29,000		1.1250-1.5620	35,557.00	
09/02/99	1,000		1.3120	1,312.00	
09/03/99	4,000		1.3120-1.5000	5,499.00	
09/07/99	7,500		1.4370	10,777.50	
09/10/99	8,000		1.3120-1.4370	10,558.50	
09/13/99	7,500		1.3750-1.4500	10,837.5	
09/01/99		500	1.25		625.00
09/24/99		26,000	1.062-1.171		29,998.00
10/05/99	3,000		1	3,000.00	
10/12/99	1,500		0.7810	1,171.50	
10/18/99	1,000		0.3500	350.00	
10/19/99	1,000		0.3700	370.00	
10/14/99		4,000	0.6250		2,500.00
10/18/99		121700	0.2300-.40000		32268
10/20/ 99		10,600	0.2800		2,968.00
10/21/99		30,000	.31-.32		9,500.00
10/25/99		25,000	.2300-.2500		5,850.00
10/26/99		71,000	.23-.26		16,560.00
10/28/99		10,000	0.2200		2,200.00
10/29/99		1,070	0.2200		235.40
11/17/99	1,000		0.2500	250.00	
11/18/99	1,500		0.2500	375.00	
11/02/99		20,000	0.1750		3,450.00
11/03/99		7,500	0.2200		1.650.00
11/08/99		10,000	0.1600		1,600.00
11/09/99		236,500	0.1800		42,570.00
11/15/99		18,000	0.2100		3,780.00
11/16/99		8,000	0.2500		2,000.00

12/10/99		32,500	0.1800		5,850.00
12/13/99		10,000	0.1700		1,700.00
12/14/99		10,000	0.1700		1,700.00
12/20/99		113,500	.15-.17		18,825.00
12/21/99		129,000	.16-.48		37,325.00
12/22/99		212,000	0.2900-0.5600		91,466.00
12/23/99		161,000	0.5100-1.46800		133,332
12/29/99		94,700	2.00-2.9680		241,944.60
12/30/99		13,500	1.2180-2.4060		20,868.00
TOTALS	116,612	1,553,432		206,100	1,125,253
				Net Proceeds	919,125

*Date indicated is the settlement date. Settlement takes place three trading days after the trade is executed.

147. During the Class Period, in fiscal 2000, Omega sold 201,780 shares of LMG common stock for proceeds of approximately $2.7 million(net of offsetting purchases). Defendant Simon, as the 38% owner of Omega, benefitted by approximately $1.58 million.

148. The following chart lists Omega's trades in LMG common stock for the year 2000:

Date*	Number of Shares Purchased	Number of Shares Sold	Price (estimated) ($)	Net Cost ($)	Net Proceeds ($)
01/04/00		21,000	1.7500-1.9370		38,682.00
01/05/00		23,000	1.3120-1.9370		35,491.00
01/06/00		25,000	1.800-2.8750		61,413.00
01/07/00		7,300	1.9370-2.5930		16,452.10
01/18/00		10,000	2.2180-2.3750		22,965.00
01/31/00		5,000	2.1870		10,935.00
02/01/00		10,000	2.2810		22,810.00
02/02/00		6,000	1.9060		11,436.00
02/03/00		15,000	1.9060-1.9680		28,900.00
02/04/00		1,000	2.1870		2,187.00
02/09/00		15,000	1.9370		29,055.00
02/14/00		13,500	1.9370-1.9680		26,413.00
02/15/00		27,050	2.0310-2.2180		58,436.80
02/17/00		4,000	2.2810-2.2500		9,062.00
02/18/00		21,500	1.9800-2.0620		42,939.00
02/22/00		248,400	2.0310-6.9600		1,124,666.50
02/23/00		15,000	6.500-8.8430		131,401.00
02/24/00		9,000	5.2810-5.3120		47,684.00
02/25/00		40,500	8.5310-9.0310		361,113.50
02/23/00		67,000	7.80-8.77		539,150
02/28/00		33,000	8.78-8.80		289,793
02/29/00		29,900	8.81-9.75		282,159
03/01/00		22,000	13.16-14.14		141,607

04/03/00		13,580	6.93-7.39		95,597
04/04/00		22,200	5.15-5.21		115,646
04/04/00	43,500		5.18-6.57	250,969	
04/05/00		14,000	5.05-5.15		71,590
04/07/00		1,500	6.30		9,451
04/13/00	35,000		5.21	182,508	
04/14/00	44,500		5.18-5.22	230,821	
04/20/00		35,000	4.91-5.33		173,981
04/24/00		19,000	4.88		92,719
04/25/00	6,100		5.06-5.19	31,568	
04/25/00		44,100	5.03-6.24		250,625
04/26/00	34,000		4.76-5.19	169,837	
05/09/00	15,000		3.12-3.15	47,160	
05/15/00	18,000		2.83-3.00	52,678	
05/17/00		33,000	3.39-3.57		112,601
05/19/00		69,500	3.38-5.79		320,447
05/22/00		7,500	3.28-3.35		24,952
05/23/00	2,500		3.15-3.22	7,988	
05/24/00		45,000	2.75-5.03	141,147	
05/25/00	5,000		3.12	15,617	
06/07/00		24,500	3.03-3.38		79,448
06/08/00		2,000	3.03-3.13		6,162
06/20/00		61,500	3.09-3.21		110,024
06/21/00		5,000	3.03		15,149
07/05/00		10,000	3.03-3.15		30,888
07/20/00		8,000	3.05-3.13		24,812
07/21/00		24,200	3.05-3.14		74,305
08/24/00		7,500	2.77-2.80		20,962
08/25/00		16,500	2.89-3.43		51,451
08/28/00		25,000	3.86-4.07		99,688
08/29/00		4,000	3.89-4.02		15,944
09/19/00		4,500	2.71-2.77		12,327
09/21/00		500	2.71		1,356
09/28/00		5,000	2.3		11,512
12/11/00		5,000	3.09		15,433
12/26/00	13,500		1.78-1.87	24,615	
TOTALS	217,100	1,153,330		1,154,906.59	5,330,984.98
				Net Proceeds	4,176,078.39
				38% Net Proceeds	1,586,910.00

*Date indicated is the settlement date. Settlement takes place three trading days after the trade is executed.

149. SEC filings for the Omega transactions were not made under Simon's name because he claims to be uninvolved in the management of Omega and, therefore, purports to

have no reporting obligation.[6] Omega did not file appropriate SEC reports disclosing most of the sales. SEC filings disclosing sales for Omega could only be located in LEXIS/NEXIS data bases for May and June of 2000. No records at all were found for 1999 or 2001. The defendants' failure to report/disclose all sales by Omega in a timely manner caused LMG's SEC filings to be materially false and misleading. These sales were material facts, clearly known to defendant Simon, which should have been publicly disclosed.

GENERALLY ACCEPTED AUDITING STANDARDS

150. During the Class Period, the Auditor Defendants failed to follow Generally Accepted Auditing Standards. Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute of Certified Public Accountants' (the "Institute") Code of Professional Conduct requires adherence to the applicable generally accepted standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of GAAS and requires that members be prepared to justify departures from such statements.[7]

151. The following GAAS standards were violated by the Auditor Defendants:

(a) AICPA General Standard No. 3 which requires that due professional care is to be exercised in the performance of the examination and in the preparation of the report (AU §§ 150, 230);

[6] Simon disclosed purchases of LMG common stock occurring on December 21-22, 2000 (13,500 shares purchased at a price of $1.13-$1.73 per share, valued at between $15,255-$23,355). These purchases were found at Quicken.com (powered by Vickers). An investor searching this site would have only found, for year 2000, records of this trade and sales in May and June of 2000 by Omega.

[7] The Board has issued a codification of Statements on Auditing Standards commonly referenced by "AU §_."

(b) AICPA Standard of Field Work No. 1 which requires that the work is to be adequately planned and assistants, if any, are to be properly supervised (AU §§150, 310-311);

(c) AICPA Standard of Field Work No. 2 which requires that there is to be a proper study and evaluation of the existing internal controls as a basis for reliance thereon and for the determination of the result and extent of the tests to which auditing procedures are to be restricted (AU §§ 150, 320);

(d) AICPA Standard of Field Work No. 3 which standard requires that sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations in order to afford a reasonable basis for an option regarding the financial statements under examination (AU §§150, 326);

(e) AICPA Standard of Reporting No. 1 which requires that the report shall state whether the financial statements have been presented in accordance with GAAP (AU §§ 150, 410-411); and

(f) AICPA Standard of Reporting No. 3 which requires that the informative disclosures contained in the financial statements be regarded as reasonably adequate unless otherwise stated in the report (AU §§ 150, 431).

152. Moreover, the Auditor Defendants did not exercise due professional care in planning and executing the audit procedures and did not appropriately assess the risk that errors and irregularities may cause LMG's financial statements to be misstated. In accordance with AU § 316, ¶¶ .03, .05, .08 which states:

> The auditor should assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement. Based on that assessment, the auditor should design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. . . . The auditor should exercise (a) due care in planning, performing and

> evaluating the results of audit procedures, and (b) the proper degree of professional skepticism to achieve reasonable assurance that material errors or irregularities will be detected. . . .

<u>GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</u>

153. 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. SEC Regulation S-X (17 C.F.R. and section 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, despite footnote or other disclosure. 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)).

154. With respect to revenue recognition, FASB Concept 5, ¶83(a), states that revenue is to be recognized when "realized or realizable" according to the following principles:

> Realized or realizable, Revenues and gains generally are not recognized until realized or realizable. Revenues and gains are realized when products, goods or services, merchandise, or other assets are exchanged for cash or claims to cash. Revenues and gains are realizable when related assets received or held readily convertible to known amounts of cash or claims to cash. Readily convertible assets have (i) interchangeable (fungible) units and (ii) quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

155. With respect to inventory, Accounting Research Bulletin ("ARB") 43, Ch4, ¶3 provides that: the term inventory to be used to designate the aggregate of those items of tangible personal property that (a) are held for sale in the ordinary course of business [(finished goods)] (b) are in process of production for such sale [(work in progress)], or (c) are to be currently

consumed either directly or indirectly in the production of foods or services to be available for sale [(raw materials and supplies)]. ARB 43, Ch4, ¶3.

156. The definition of inventory specifically excludes: (a) long-term assets subject to depreciation or goods that, when put into use, will be so classified; (b) depreciable assets retired from regular use and held for sale; and (c) raw materials and supplies purchased for production which may be used or consumed for the construction of long-term assets or other purposes not related to production. ARB 43, Ch4, ¶ 3.

157. As discussed in detail herein, LMG violated each of the above-mentioned provisions of GAAP. Moreover, LMG financial results and statements were prepared in a manner which violated the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements (APB No. 28, ¶12);

(b) The principle that financial reporting should provide information that is useful to present and 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 an enterprise, 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 how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means 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. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

LMG'S FALSE FINANICAL REPORTING DURING THE CLASS PERIOD

158. LMG's financial results as originally reported for 1999 were materially false and misleading. LMG's Fiscal 2000 Form 10-KSB indicated that sales had been overstated by 11%; net income had been overstated by over 500% (LMG recorded a net loss exceeding $1.8 million or ($0.12 per share), rather than the profit originally reported). In addition, originally reported results had understated: total costs & expenses by 250% ($1.9 million), depreciation and amortization by 84% ($45,806); and interest expenses by 53% ($21,930). The Fiscal 2000 Form 10-KSB restated financial results for 1999 as follows:

1999 FINANCIAL RESULTS	Originally Reported Results	Restated Results	Restated Higher (Lower)	% Increase (Decrease)
Filing Date	4/14/00	04/24/01		
Source	10-KSB 1999	10-KSB 2000		
Auditor	Slayton	Feldman Sherb		
Sales	$1,171,348	1,038,216	($133,132)	-11%
Cost of Sales	-	112,314		
Gross Profit	-	925,902		
Total Costs & Expenses	772,599	2,706,494	$1,933,895	250%
Depreciation and Amortization	54,345	100,151	$45,806	84%
Interest Expense	40,942	62,872	$21,930	53%
Net Income (Loss)	$398,749	($1,843,464)	($2,242,213)	-562%
Net Income (Loss) per Share-Basic and Diluted	$0.03	($0.12)	($0.15)	500%

159. The Fiscal 2000 Form 10-KSB indicated that the previously reported results had not accounted for expenses paid by a "related company," increases in liabilities, and that certain fixed assets had to be reclassified as inventory (depreciation expenses had been overstated). LMG explained the restatement as follows:

> 1999 Accounting Adjustments
>
> In connection with the completion of the 2000 audit; the Company identified various adjustments as follows: expenses paid for by a related company; an increase in accrued liabilities; and a change in

> depreciation because of a reclassification of fixed assets to inventory. As a result, the Company recorded adjustments decreasing sales by $23,356, increasing selling, general and administrative expenses for $1,748,147, decreasing depreciation expenses by $50,571 and increasing other expenses by $18,156. Additionally, the Company's stockholders' equity decreased by $1,739,088 as a result of these adjustments.

160. LMG's presentation of financial results for 1999 as originally reported on April 14, 2000 violated GAAP: ARB 43, Ch4, ¶3; FASB Concepts: No. 1, ¶34, ¶42; No. 2, ¶¶58-59, 95, 97; and No. 5, ¶¶81, 83(a).

161. LMG's First Quarter Fiscal 2000 Form 10-QSB (filed on May 23, 2000) materially misrepresented financial results for the first quarter of 2000 as follows: sales were overstated by 49% ($298,262), SG&A expenses were understated by 295% ($1,387,580), and net losses were understated by over 300% ($1,578,520) ($0.09 per share). Restated results accounted for additional shares issued in exchange for services which were not previously reported. Financial results for the quarter were restated as follows:

	3 Months Ended 3/30/2000	Restated 3 Months Ended 3/30/2000	RESTATED HIGHER (LOWER)	% Increase (Decrease)
Source	10-QSB	10-QSB		
Filing Date	5/23/00	5/24/01		
Auditor	Slayton			
SALES	597,193	298,931	-298,262	-50%
EXPENSES SG&A	469,832	1,857,412	1,387,580	295%
Depreciation & Amortization	57,134	62,362	5,228	9.1%
TOTAL OPERATING EXPENSES	1,117,474	2,345,136	1,227,662	11%
NET LOSS	520,044	2,098,564	1,578,520	303%
NET LOSS PER SHARE-BASIC AND DILUTED	$0.03	$0.12	$0.09	300%

162. LMG's presentation of financial results for the three month period ended March 30, 2000 as originally reported in LMG's First Quarter Fiscal 2000 Form 10-QSB violated GAAP; FASB Concepts: No. 1, ¶34, ¶42; No. 2, ¶¶58-59, 95-97; and No. 5, ¶¶81, 83(a).

163. LMG's Second Quarter Fiscal 2000 Form 10-QSB materially misrepresented financial results for the six month period ended June 30, 2000 as follows: sales were overstated by 67% ($729,045), SG&A expenses were understated by 120% ($1,380,437); total operating expenses were understated by 40% ($873,141) and losses were understated by 85% ($1,283,400) ($0.06 per share). Results for the quarter were restated as follows:

	6 Months Ended 6/30/2000	Restated 6 Months Ended 6/30/2000	Higher (Lower)	% Increase (Decrease)
Source	10-Q00	10-QSB		
Filing Date	8/22/00	8/15/01		
Sales	1,084,138	355,093	(729,045)	-67%
Cost of Sales	596,042	78,859	(517,183)	-87%
Gross Profit	488,096	276,234	(211,862)	-43%
Expenses SG&A	1,146,957	2,527,394	1,380,437	120%
Litig. Settlement	851,159	390,384	(460,775)	-54%
Depreciation and Amortization	171,622	125,101	(46,521)	27%
Total Operating Expenses	2,169,738	3,042,879	873,141	40%
Loss from Operations	658,861	2,766,645	2,107,784	320%
Net Loss	1,510,020	2,793,420	1,283,400	85%
Net Loss per Share – Basic and Diluted	$0.09	$0.15	($0.06)	-66%

164. Restated results in LMG's Second Quarter Fiscal 2001 Form 10-QSB/A00, filed on August 15, 2001, indicated that: (a) sales had been improperly booked; (b) inventory had been improperly classified as property and equipment; and (c) LMG had failed to account for shares issued as compensation. LMG's financial results for the six month period ended June 30,

2000, as presented in its Second Quarter Fiscal 2000 Form 10-QSB filed, on August 22, 2000, violated GAAP; ARB 43, Ch4, ¶3; FASB Concepts: No. 1, ¶34, ¶42; No. 2, ¶¶58-59, 95, 97; and No. 5, ¶81, 83(a).

165. During the Class Period, LMG's Third Quarter Fiscal 2000 10-QSB materially misrepresented financ ial results for the nine month period ended September 30, 2000 as follows:

	9 Months Ended 9/30/2000	Restated 9 Months Ended 9/30/2000	Restated Higher (Lower)	% Increase (Decrease)
Source	10-Q00	10-QSB		
Filing Date	11/20/00	11/19/01		
Sales	1,635,045	533,362	(1,101,683)	-67%
Cost of Sales	886,354	319,628	(566,726)	64%
Gross Profit	748,691	213,734	(534,957)	-71%
Expenses SG&A	NA	3,073,713		
Total Operating Expenses	1,756,553	3,662,025	1,905,472	108%
Loss from Operations	NA	3,448,291		
Net Loss	1,859,456	3,475,422	1,615,966	87%
Net Loss per Share	0.11	0.18	(0.07)	64%

166. LMG's Third Quarter Fiscal 2001 Form 10-QSB, which restated results for the Third Quarter 2000, indicated that: (a) sales had been improperly booked; (b) inventory had been improperly classified as property and equipment; and (c) LMG had failed to account for shares issued as compensation. Sales were overstated by 67% ($1,101,683), total operating expenses were understated by 108% ($1,905,472) and losses were understated by 85% ($1,283,400) ($0.06 per share).

167. LMG's Third Quarter Fiscal 2000 financial results for the nine month period ended September 30, 2000, as prevented in Third Quarter Fiscal 2001 Form 10-QSB filed on

November 20, 2000, violated GAAP: ARB 43, Ch4, ¶3; FASB Concepts: No. 1, ¶¶34, 42; No. 2, ¶¶58-59, 95, 97; and No. 5, ¶¶81, 83(a).

168. During the Class Period, LMG failed to make timely disclosure of the material fact that stock had been issued to Omega in consideration for the canceling of debt owed by IMG. These transactions took place in March of 2001 and, therefore, should have been disclosed in LMG's Form 10-KSB for 2000 filed on April 24, 2001. In addition, LMG failed to properly account for LMG expenses paid for by a "related" company. Disclosure of these transactions was not made until an amended 10-KSB/A00 was filed on June 22, 2001, which stated:

> <u>Results of Operations</u>
>
> 2000 Accounting Adjustments
> Subsequent to the completion of its 2000 audit, the Company identified $327,185 of expenses, which were paid for by a related company. In addition, the company had recorded a discount to notes payable of $1,439,586 related to the issuance of warrants in connection with borrowings from such entity. Since the loans were due upon demand, the Company has restated its financial statements to record an expense for such discount in the year ended December 31, 2000. In addition, the Company has included the disclosure of the conversion in March 2001, of $1,600,000 of debt into shares of its common stock, which was not previously disclosed.

169. During the Class Period, LMG and the LMG defendants represented that the Company's financial statements reflected all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the Company's consolidated financial position, results of operations and cash flows for the reported periods. These representations were false and misleading when made because LMG's presentation of financial results were presented in a deceptive manner which violated GAAP and SEC rules.

170. Independent Auditor defendant Slayton falsely represented that year end results for 1999 had been presented in accordance with GAAP based upon an audit that was purportedly conducted in compliance with generally accepted auditing standards ("GAAS").

171. Independent Auditor defendant Feldman Sherb falsely represented that year end results for 2000 had been presented in accordance with GAAP based upon an audit that was purportedly conducted in compliance with GAAS.

172. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by the investment community to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

NO SAFE HARBOR

173. 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" when made, there was no statement made with respect to any of those representations forming the basis of this complaint that actual results "could differ materially from those projected," and there were no meaningful cautionary statements identifying the important factors 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 is intended to apply to any forward-looking statements pled herein, defendants are liable for those false forward-looking statements

because at the time each of those forward-looking statements was made, the particular speaker had actual knowledge that the particular forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized and/or approved by an executive officer of LMG who knew that those statements were false when made.

PRESUMPTION OF RELIANCE:
FRAUD-ON-THE-MARKET DOCTRINE

174. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) LMG common stock met the requirements for listing, and was listed, on the Over The Counter Bulletin Board, an efficient market;

(b) as a regulated issuer, the Company filed periodic reports with the SEC;

(c) the trading volume of the Company's stock was substantial, reflecting numerous trades each day;

(d) LMG was followed by securities analysts employed by several major brokerage firms who wrote reports which were distributed to the sales force and certain customers of such firms and which were available to various automated data retrieval services;

(e) the misrepresentations alleged herein would tend to induce a reasonable investor to misjudge the value of LMG common stock; and

(f) plaintiff and the members of the Class purchased their common stock during the Class Period without knowledge of the omitted or misrepresented facts.

175. Based upon the foregoing, plaintiff and the other members of the Class are entitled to a presumption of reliance upon the integrity of the market for the purpose of class certification as well as for ultimate proof of their claims on the merits. Plaintiff will also rely, in

part, upon the presumption of reliance established by material omissions and upon the actual reliance of the class members.

COUNT I
FOR VIOLATION OF SECTION 10(b) OF THE
<u>EXCHANGE ACT AND SEC RULE 10b-5</u>

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

177. During the Class Period, Defendants engaged in a course of conduct, described above, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices, and a course of business which operated as a fraud upon plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary to make statements made, in light of the circumstances under which they were made, not misleading to plaintiff and the other Class members; and employed manipulative and deceptive devices and contrivances in connection with the purchase of LMG common stock.

178. The purpose and effect of Defendants' plan, scheme, conspiracy and course of conduct was to artificially inflate the price of LMG common stock and then artificially maintain the market price of the stock.

179. The LMG Defendants, through their positions as officers and/or directors, had actual knowledge of the material omissions and/or the falsity of the statements set forth above, and intended to deceive plaintiff and the other members of the Class or, in the alternative, acted with reckless disregard for the truth when they failed or refused to ascertain and disclose in the aforementioned documents the true facts to plaintiff and the other members of the Class.

180. The Auditor Defendants, through their positions as independent auditors, had actual knowledge of the material omissions and/or the falsity of the statements set forth above,

and intended to deceive plaintiff and the other members of the Class or, in the alternative, acted with reckless disregard for the truth when they failed or refused to ascertain and disclose in the aforementioned documents the true facts to plaintiff and the other members of the Class.

181. Defendants had actual knowledge of the material omissions and/or the falsity of the statements set forth above, and intended to deceive plaintiff and the other members of the Class or, in the alternative, acted with reckless disregard for the truth when it failed or refused to ascertain and disclose in the aforementioned documents the true facts to plaintiff and the other members of the Class.

182. As a result of the foregoing, the market price of LMG stock was artificially inflated during the Class Period. In ignorance of the materially false and misleading nature of the misrepresentations, described above, made by defendants and the deceptive and manipulative devices and contrivances employed by the defendants, plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market price of the stock in purchasing LMG stock. Had plaintiff and the other members of the Class known of the material adverse information not disclosed by the defendants, they would not have purchased LMG stock at the artificially inflated prices they did.

183. Plaintiffs and the other members of the Class have suffered substantial damages as a result of the wrongs alleged herein.

184. By reason of the foregoing, defendants have violated or aided and abetted violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, in that they: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud

or deceit upon plaintiff and other members of the Class in connection with their purchases of LMG stock during the Class Period.

COUNT II
FOR VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT

185. Plaintiff repeats and realleges each and every allegation set forth in the paragraphs above, as if set forth fully herein.

186. The Individual Defendants, by virtue of their offices, directorships, and/or professional relationship with LMG and specific acts were, at the time of the wrongs alleged herein, controlling persons of LMG within the meaning of Section 20(a) of the Exchange Act. The Individual Defendants had the power and influence and exercised the same to cause LMG to engage in the illegal conduct and practices complained of herein by causing the Company to disseminate to the public, or through analysts, the materially false and misleading information referred to above.

187. The Individual Defendants' positions made them privy to, and provided them with, actual knowledge of the material facts concealed from plaintiff and the Class by LMG during the Class Period.

188. By reason of the conduct alleged above, the Individual Defendants are liable for the aforesaid wrongful conduct and liable to the plaintiff and the other members of the Class for the substantial damages which they suffered in connection with their purchases of LMG common stock during the Class Period.

WHEREFORE, plaintiff on his own behalf, and on behalf of the other members of the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action, certifying the plaintiff as Class representative and his counsel as Class Counsel;

B. Declaring and determining that the defendants violated the federal securities laws by reason of their conduct as alleged herein;

C. Awarding money damages against the defendants, jointly and severally, in favor of the plaintiff and the other members of the Class for all losses and injuries suffered as a result of the acts and transactions complained of herein, together with prejudgment interest on all of the aforesaid damages which the Court shall award from the date of said wrongs to the date of judgment herein at a rate the Court shall fix;

D. Awarding plaintiff his costs and expenses incurred in this action, including reasonable attorneys', accountants' and experts' fees; and

E. Awarding such other relief as may seem just and proper.

Dated June 24, 2002

Respectfully submitted,

WOLF HALDENSTEIN ADLER FREEMAN & HERZ LLP

By:________________________________
Fred Taylor Isquith (FI 6782)
270 Madison Avenue
New York, NY 10016
(212) 545-4600

LAW OFFICES OF CHARLES J. PIVEN, P.A.
Charles J. Piven, Esq.
The World Trade Center – Baltimore
401 East Pratt Street
Suite 2525
Baltimore, MD 21202
(410) 332-0030

/274046