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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

[REDACTED]

Case No: 17-cv-1608

Plaintiff,

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

v.

JURY TRIAL DEMANDED

AMTRUST FINANCIAL SERVICES,
INC., BARRY D. ZYSKIND, and
RONALD E. PIPOLY, JR.,

Defendants.

Plaintiff [REDACTED] (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants (defined below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through her attorneys, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding AmTrust Financial Services,

1 Inc. (“AmTrust” or the “Company”), and information readily obtainable on the
2 Internet. Plaintiff believes that substantial evidentiary support will exist for the
3 allegations set forth herein after a reasonable opportunity for discovery.

4 **NATURE OF THE ACTION**

5 1. This is a federal securities class action on behalf of a class consisting
6 of all persons and entities other than Defendants who purchased or otherwise
7 acquired the publicly traded securities of AmTrust from May 10, 2016 through
8 February 24, 2017, both dates inclusive (the “Class Period”). Plaintiff seeks to
9 recover compensable damages caused by Defendants’ violations of the federal
10 securities laws and to pursue remedies under Sections 10(b) and 20(a) of the
11 Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated
12 thereunder.

13 **JURISDICTION AND VENUE**

14 2. The claims asserted herein arise under and pursuant to Sections 10(b)
15 and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5
16 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

17 3. This Court has jurisdiction over the subject matter of this action
18 pursuant to Section 27 of the Exchange Act (15 U.S.C. §78aa).

19 4. Venue is proper in this judicial district pursuant to 28 U.S.C. § 1391(b)
20 and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)) as the Company conducts
21 business in this judicial district.

22 5. In connection with the acts, conduct and other wrongs alleged in this
23 complaint, Defendants, directly or indirectly, used the means and instrumentalities
24 of interstate commerce, including but not limited to, the United States mails,
25 interstate telephone communications and the facilities of the national securities
26 exchange.

1 **PARTIES**

2 6. Plaintiff, as set forth in the accompanying certification, incorporated
3 by reference herein, purchased AmTrust securities at artificially inflated prices
4 during the Class Period and was economically damaged thereby.

5 7. Defendant AmTrust, through its subsidiaries, underwrites and
6 provides property and casualty insurance in the United States and internationally.
7 AmTrust is incorporated in Delaware and maintains an office at 17771 Cowan,
8 Suite 100, Irvine, California. According to its Form 10-K for the fiscal year ended
9 December 31, 2015 filed with the SEC on February 29, 2016, (the “2015 10-K”),
10 24.2% of its direct gross written premium for its Small Commercial Business
11 segment and 38% of its direct written premiums for its Specialty Program segment
12 came from California for 2015, the largest of any state. AmTrust securities trade on
13 NASDAQ under the ticker “AFSI.”

14 8. Defendant Barry D. Zyskind (“Zyskind”) has been the Company’s
15 Chairman, President and Chief Executive Officer throughout the Class Period.

16 9. Defendant Ronald E. Pipoly, Jr. (“Pipoly”) has been the Company’s
17 Chief Financial Officer throughout the Class Period.

18 10. Defendants Zyskind and Pipoly are collectively referred to herein as
19 the “Individual Defendants.”

20 11. Each of the Individual Defendants:

- 21 a. directly participated in the management of the Company;
- 22 b. was directly involved in the day-to-day operations of the
23 Company at the highest levels;
- 24 c. was privy to confidential proprietary information concerning the
25 Company and its business and operations;
- 26 d. was directly or indirectly involved in drafting, producing,
27 reviewing and/or disseminating the false and misleading
28 statements and information alleged herein;

- 1 e. was directly or indirectly involved in the oversight or
- 2 implementation of the Company’s internal controls;
- 3 f. was aware of or recklessly disregarded the fact that the false and
- 4 misleading statements were being issued concerning the
- 5 Company; and/or
- 6 g. approved or ratified these statements in violation of the federal
- 7 securities laws.

8 12. AmTrust is liable for the acts of the Individual Defendants and its
9 employees under the doctrine of *respondeat superior* and common law principles
10 of agency because all of the wrongful acts complained of herein were carried out
11 within the scope of their employment.

12 13. The scienter of the Individual Defendants and other employees and
13 agents of the Company is similarly imputed to AmTrust under *respondeat superior*
14 and agency principles.

15 14. Defendants AmTrust and Individual Defendants are collectively
16 referred to herein as “Defendants.”

17 **SUBSTANTIVE ALLEGATIONS**

18 **Background**

19 15. The Company’s 2015 10-K stated that “the CEO and CFO have
20 concluded that our internal control over financial reporting is effective as of
21 December 31, 2015.”

22 **Materially False and Misleading Statements Issued During the Class Period**

23 16. On May 10, 2016, the Company filed a Form 10-Q for the quarterly
24 period ended March 31, 2016 (the “1Q16 10-Q”) with the SEC. The 1Q16 10-Q
25 was signed by Defendants Zyskind and Pipoly. Attached to the 1Q16 10-Q were
26 certifications pursuant to the Sarbanes Oxley Act of 2002 (“SOX”) signed by
27 Defendants Zyskind and Pipoly attesting to the accuracy of the financial statements,
28

1 the disclosure of any material changes to the Company’s internal control over
2 financial reporting and the disclosure all fraud was disclosed.

3 17. The 1Q16 10-Q discussed the Company’s internal controls over
4 financial reporting, stating in relevant part:

5 During the most recent fiscal quarter, there have been no changes in our
6 internal controls over financial reporting (as defined in Exchange Act
7 Rule 13a-15(f) and 15d-15(f)) that have materially affected, or are
8 reasonably likely to materially affect, our internal control over financial
reporting.

9 18. On August 9, 2016 the Company filed a Form 10-Q for the quarterly
10 period ended June 30, 2016 (the “2Q16 10-Q”) with the SEC. The 2Q16 10-Q was
11 signed by Defendants Zyskind and Pipoly. Attached to the 2Q16 10-Q were SOX
12 certifications signed by Defendants Zyskind and Pipoly attesting to the accuracy of
13 the financial statements, the disclosure of any material changes to the Company’s
14 internal control over financial reporting and the disclosure all fraud was disclosed.

15 19. The 2Q16 10-Q discussed the Company’s internal controls over
16 financial reporting, stating in relevant part:

17 During the most recent fiscal quarter, there have been no changes in our
18 internal controls over financial reporting (as defined in Exchange Act
19 Rule 13a-15(f) and 15d-15(f)) that have materially affected, or are
20 reasonably likely to materially affect, our internal control over financial
reporting.

21 20. On November 14, 2016 the Company filed a Form 10-Q for the
22 quarterly period ended September 30, 2016 (the “3Q16 10-Q”) with the SEC. The
23 3Q16 10-Q was signed by Defendants Zyskind and Pipoly. Attached to the 3Q16
24 10-Q were SOX certifications signed by Defendants Zyskind and Pipoly attesting
25 to the accuracy of the financial statements, the disclosure of any material changes
26 to the Company’s internal control over financial reporting and the disclosure all
27 fraud was disclosed.
28

1 financial statements and assessment of internal controls over financial
2 reporting for the fiscal year ended December 31, 2016, and, as a
3 consequence, for the Company's auditor, KPMG LLP, to complete its
4 audit procedures and audit of the consolidated financial statements
5 included in the Form 10-K. The Company expects to file the Annual
6 Report on Form 10-K within the 15-day extension period provided by
7 Rule 12b-25.

8 In addition, the Company expects to make immaterial corrections to
9 errors in its financial statements for fiscal years ended December 31,
10 2015 and 2014 and certain financial information for fiscal years ended
11 December 31, 2013 and 2012 for inclusion in the Form 10-K and these
12 processes have not been completed. The Company is still evaluating
13 corrections to its historical quarterly financial statements within these
14 fiscal years. For a further explanation, please see footnote (1) below.

15 In connection with the foregoing, *the Company expects to disclose in*
16 *the Form 10-K that, as part of its evaluation of its internal controls*
17 *over financial reporting as required by Section 404 of the Sarbanes-*
18 *Oxley Act of 2002, the Company identified material weaknesses in its*
19 *internal control over financial reporting that existed as of December*
20 *31, 2016, specifically related to ineffective assessment of the risks*
21 *associated with the financial reporting, and an insufficient*
22 *complement of corporate accounting and corporate financial*
23 *reporting resources within the organization.* As the Company
24 completes the preparation of its financial statements and the related
25 audit process for fiscal year 2016, additional adjustments and/or
26 material weaknesses could be identified. While the Company believes
27 that significant progress has been made in enhancing internal controls
28 as of December 31, 2016 and in the period since, the material
weaknesses have not been fully remediated due to insufficient time to
fully implement and assess the design and operating effectiveness of
the related controls. The Company will continue the process to enhance
internal controls throughout 2017.

(Emphasis added).

1 24. On this news, shares of AmTrust fell \$5.32 per share or over 19% from
2 its previous closing price to close at \$22.34 per share on February 27, 2017,
3 damaging investors.

4 25. As a result of Defendants' wrongful acts and omissions, and the
5 precipitous decline in the market value of the Company's securities, Plaintiff and
6 other Class members have suffered significant losses and damages.

7 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

8 26. Plaintiff brings this action as a class action pursuant to Federal Rule of
9 Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons other
10 than defendants who acquired AmTrust securities publicly traded on NASDAQ
11 during the Class Period and who were damaged thereby (the "Class"). Excluded
12 from the Class are Defendants, the officers and directors of AmTrust, members of
13 the Individual Defendants' immediate families and their legal representatives, heirs,
14 successors or assigns and any entity in which Officer or Director Defendants have
15 or had a controlling interest.

16 27. The members of the Class are so numerous that joinder of all members
17 is impracticable. Throughout the Class Period, AmTrust securities were actively
18 traded on NASDAQ. While the exact number of Class members is unknown to
19 Plaintiff at this time and can be ascertained only through appropriate discovery,
20 Plaintiff believes that there are hundreds, if not thousands of members in the
21 proposed Class.

22 28. Plaintiff's claims are typical of the claims of the members of the Class
23 as all members of the Class are similarly affected by defendants' wrongful conduct
24 in violation of federal law that is complained of herein.

25 29. Plaintiff will fairly and adequately protect the interests of the members
26 of the Class and has retained counsel competent and experienced in class and
27 securities litigation. Plaintiff has no interests antagonistic to or in conflict with those
28 of the Class.

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

- 4 a. whether the Exchange Act was violated by Defendants' acts as
5 alleged herein;
- 6 b. whether statements made by Defendants to the investing public
7 during the Class Period misrepresented material facts about the
8 financial condition and business AmTrust;
- 9 c. whether Defendants' public statements to the investing public
10 during the Class Period omitted material facts necessary to make
11 the statements made, in light of the circumstances under which
12 they were made, not misleading;
- 13 d. whether the Defendants caused the Company to issue false and
14 misleading SEC filings during the Class Period;
- 15 e. whether Defendants acted knowingly or recklessly in issuing
16 false and SEC filing
- 17 f. whether the prices of AmTrust's securities during the Class
18 Period were artificially inflated because of the Defendants'
19 conduct complained of herein; and
- 20 g. whether the members of the Class have sustained damages and,
21 if so, what is the proper measure of damages.

22 31. A class action is superior to all other available methods for the fair and
23 efficient adjudication of this controversy since joinder of all members is
24 impracticable. Furthermore, as the damages suffered by individual Class members
25 may be relatively small, the expense and burden of individual litigation make it
26 impossible for members of the Class to individually redress the wrongs done to
27 them. There will be no difficulty in the management of this action as a class action.
28

1 32. Plaintiff will rely, in part, upon the presumption of reliance established
2 by the fraud-on-the-market doctrine in that:

- 3 a. AmTrust securities met the requirements for listing, and were
4 listed and actively traded on NASDAQ, a highly efficient and
5 automated market;
- 6 b. As a public issuer, the Company filed periodic public reports
7 with the SEC and NASDAQ;
- 8 c. The Company regularly communicated with public investors via
9 established market communication mechanisms, including
10 through the regular dissemination of press releases via major
11 newswire services and through other wide-ranging public
12 disclosures, such as communications with the financial press
13 and other similar reporting services; and
- 14 d. The Company was followed by a number of securities analysts
15 employed by major brokerage firms who wrote reports that were
16 widely distributed and publicly available.

17 33. Based on the foregoing, the market for AmTrust securities promptly
18 digested current information regarding the Company from all publicly available
19 sources and reflected such information in the prices of the shares, and Plaintiff and
20 the members of the Class are entitled to a presumption of reliance upon the integrity
21 of the market.

22 34. Alternatively, Plaintiff and the members of the Class are entitled to the
23 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens*
24 *of the State of Utah v. United States*, 406 U.S. 128 (1972), as Defendants omitted
25 material information in their Class Period statements in violation of a duty to
26 disclose such information as detailed above.

1 **COUNT I**

2 **For Violations of Section 10(b) And Rule 10b-5 Promulgated Thereunder**
3 **Against All Defendants**

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

6 36. This Count is asserted against Defendants is based upon Section 10(b)
7 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder
8 by the SEC.

9 37. During the Class Period, Defendants, individually and in concert,
10 directly or indirectly, disseminated or approved the false statements specified
11 above, which they knew or deliberately disregarded were misleading in that they
12 contained misrepresentations and failed to disclose material facts necessary in order
13 to make the statements made, in light of the circumstances under which they were
14 made, not misleading.

15 38. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that
16 they: employed devices, schemes and artifices to defraud; made untrue statements
17 of material facts or omitted to state material facts necessary in order to make the
18 statements made, in light of the circumstances under which they were made, not
19 misleading; or engaged in acts, practices and a course of business that operated as
20 a fraud or deceit upon plaintiff and others similarly situated in connection with their
21 purchases of AmTrust securities during the Class Period.

22 39. Defendants acted with scienter in that they knew that the public
23 documents and statements issued or disseminated in the name of the Company were
24 materially false and misleading; knew that such statements or documents would be
25 issued or disseminated to the investing public; and knowingly and substantially
26 participated, or acquiesced in the issuance or dissemination of such statements or
27 documents as primary violations of the securities laws. These defendants by virtue
28 of their receipt of information reflecting the true facts of AmTrust, their control

1 over, and/or receipt and/or modification of the Company's allegedly materially
2 misleading statements, and/or their associations with the Company which made
3 them privy to confidential proprietary information concerning the Company,
4 participated in the fraudulent scheme alleged herein.

5 40. Individual Defendants, who are the senior officers and/or directors of
6 the Company, had actual knowledge of the material omissions and/or the falsity of
7 the material statements set forth above, and intended to deceive Plaintiff and the
8 other members of the Class, or, in the alternative, acted with reckless disregard for
9 the truth when they failed to ascertain and disclose the true facts in the statements
10 made by them or other Company personnel to members of the investing public,
11 including Plaintiff and the Class.

12 41. As a result of the foregoing, the market price of AmTrust securities
13 was artificially inflated during the Class Period. In ignorance of the falsity of
14 Defendants' statements, Plaintiff and the other members of the Class relied on the
15 statements described above and/or the integrity of the market price of AmTrust
16 securities during the Class Period in purchasing AmTrust securities at prices that
17 were artificially inflated as a result of Defendants' false and misleading statements.

18 42. Had Plaintiff and the other members of the Class been aware that the
19 market price of AmTrust securities had been artificially and falsely inflated by
20 Defendants' misleading statements and by the material adverse information which
21 Defendants did not disclose, they would not have purchased AmTrust securities at
22 the artificially inflated prices that they did, or at all.

23 43. As a result of the wrongful conduct alleged herein, Plaintiff and other
24 members of the Class have suffered damages in an amount to be established at trial.

25 44. By reason of the foregoing, Defendants have violated Section 10(b) of
26 the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the plaintiff
27 and the other members of the Class for substantial damages which they suffered in
28 connection with their purchase of AmTrust securities during the Class Period.

1 **COUNT II**

2 **Violations of Section 20(a) of the Exchange Act Against the Individual**
3 **Defendants**

4 45. Plaintiff repeats and realleges each and every allegation contained in
5 the foregoing paragraphs as if fully set forth herein.

6 46. During the Class Period, the Individual Defendants participated in the
7 operation and management of the Company, and conducted and participated,
8 directly and indirectly, in the conduct of the Company's business affairs. Because
9 of their senior positions, they knew the adverse non-public information about
10 AmTrust's misstatement of revenue and profit and false financial statements.

11 47. As officers and/or directors of a publicly owned company, the
12 Individual Defendants had a duty to disseminate accurate and truthful information
13 with respect to the Company's financial condition and results of operations, and to
14 correct promptly any public statements issued by the Company which had become
15 materially false or misleading.

16 48. Because of their positions of control and authority as senior officers,
17 the Individual Defendants were able to, and did, control the contents of the various
18 reports, press releases and public filings which the Company disseminated in the
19 marketplace during the Class Period concerning the Company's results of
20 operations. Throughout the Class Period, the Individual Defendants exercised their
21 power and authority to cause the Company to engage in the wrongful acts
22 complained of herein. The Individual Defendants therefore, were "controlling
23 persons" of the Company within the meaning of Section 20(a) of the Exchange Act.
24 In this capacity, they participated in the unlawful conduct alleged which artificially
25 inflated the market price of AmTrust securities.

26 49. By reason of the above conduct, the Individual Defendants are liable
27 pursuant to Section 20(a) of the Exchange Act for the violations committed by The
28 Company.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of herself and the Class, prays for judgment and relief as follows:

(a) declaring this action to be a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and designating plaintiff’s counsel as Lead Counsel;

(b) awarding damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, together with interest thereon;

(c) awarding plaintiff and the Class reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) awarding plaintiff and other members of the Class such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: February 28, 2017
