

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

\_\_\_\_\_, INDIVIDUALLY AND  
ON BEHALF OF ALL OTHERS  
SIMILARLY SITUATED,

Plaintiff,

v.

AMBAC FINANCIAL GROUP, INC.,  
DIANA N. ADAMS, DAVID TRICK,  
JEFFREY S. STEIN and NADER  
TAVAKOLI,

Defendants.

Civil Action No.

**JURY TRIAL DEMANDED**

**CLASS ACTION COMPLAINT**

Plaintiff \_\_\_\_\_ (“Plaintiff”) brings this action pursuant to §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, on behalf of himself and all persons similarly situated who purchased or otherwise acquired Ambac Financial Group, Inc. (“Ambac” or the “Company”) securities between November 13, 2013 and June 30, 2015, inclusive (the “Class Period”).

Plaintiff alleges the following based 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 on the investigation of his undersigned counsel, which included, among other things, review and analysis of: (i) Ambac’s public filings with the U.S. Securities and Exchange Commission (“SEC”) and other Company public statements; (ii) reports of securities and financial analysts; (iii) news articles; and (iv) industry reports. Counsel’s investigation into the matters alleged herein is continuing, and many relevant facts are known only to, or are exclusively within the custody or control of, the Defendants. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **SUMMARY OF THE ACTION**

1. Ambac, headquartered in New York, New York, is a holding company whose subsidiaries provide financial guarantee products and other financial services to clients in both the public and private sectors around the world. The Company operates in two segments: financial guarantee and financial services. The primary type of financial guarantee product that Ambac provides, monoline insurance, guarantees the timely repayment of bond principal and interest when a bond issuer defaults.

2. In its capacity as a provider of monoline insurance, Ambac insures approximately \$2.5 billion in debt issued by the Commonwealth of Puerto Rico. For decades monoline

insurance companies like Ambac have been critical to Puerto Rico's ability to access the capital markets and obtain low cost financing to fund its government and build its critical infrastructure. Approximately 20 percent of Puerto Rico's municipal bonds are guaranteed by monoline insurance companies like Ambac.

3. Throughout the Class Period, Ambac made numerous materially false and misleading statements and omitted material facts concerning, *inter alia*, the Company's losses and loss exposure on its public finance bond portfolio (including \$2.5 billion in Puerto Rican bonds), risk management, internal controls over financial reporting and financial condition and prospects. Defendants' (defined below) failure to disclose Ambac's true loss exposure relating to the bonds it insures deceived investors about the Company's true financial health.

4. For example, Ambac's various public documents filed with the SEC throughout the Class Period contained materially false and misleading statements that understated Ambac's loss reserves and loss expenses related to the Company's bond exposure, and also falsely assured investors that:

- Ambac "*actively manag[es] its assets and liabilities with a focus on maximizing investment portfolio returns and mitigating or remediating losses on poorly performing transactions*";
- "As part of its *efforts* to increase the residual value of its financial guarantee business, *Ambac Assurance pursues loss mitigation strategies*";
- With respect to "*Financial Guarantees—Risk Management's focus is on surveillance, remediation, loss mitigation and risk reduction*";
- "*Risk-adjusted surveillance strategies have been developed for each bond type. The monitoring activities are designed to detect deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely impact the portfolio.* Active surveillance enables Portfolio Risk Management to track single credit migration and industry credit trends";

- “In our experience, *losses in the public finance portfolio have been contained*, with most of our adversely classified credits resolving without loss to Ambac... *High severity outcomes are unprecedented, would represent a paradigm shift in the municipal bond market and have not been factored into our current loss reserves in most cases*”; and
- The Company was pursuing two paths “to create long-term shareholder value” consisting of: (i) “Maximiz[ing] the value of existing financial guarantee operations”; and (ii) increasing profitability by “grow[ing] and diversify[ing] through the acquisition and/or development of new business opportunities.”

Emphasis Added.

5. Substantially similar representations were made in each of the Company’s public filings, investor day presentations and press releases during the Class Period. A reasonable investor would have viewed the undisclosed facts described herein as having altered the total mix of available information.

6. As a result of Defendants’ false statements, Ambac stock traded at artificially inflated prices throughout the Class Period, reaching a Class Period high of \$35.61 per share on March 4, 2014.

7. The true facts, which were known by the Defendants but concealed from the investing public during the Class Period, were that: (i) given the deterioration and increased volatility in the Company’s bond portfolio, including its Puerto Rican bonds, the Company had far greater losses and loss exposure to anticipated defaults than it had previously disclosed; (ii) the Company’s credit risk surveillance strategies were inadequate; (iii) the Company was failing to implement mitigation strategies in a timely manner to stabilize the residual value of its financial guarantee business; (iv) as a result of the foregoing, the Company’s financial condition was much worse than represented; and (v) Ambac failed to maintain adequate internal controls over financial reporting.

8. Investors would ultimately begin to learn the truth about the risk and quality of Ambac's guarantee portfolio when, on June 29, 2015, Puerto Rico's governor announced that the island's more than \$70 billion in debt was "not payable" and Puerto Rico would likely default on upcoming interest payments. The governor's announcement made Ambac's true exposure immeasurably apparent: the Company was now potentially liable for up to \$2.5 billion of the Commonwealth's debt it insures.

9. Such news sent the Company's stock price careening downwards, falling roughly 29 percent, from a closing price of \$22.38 per share on June 26, 2015, to a closing price of \$15.91 per share on July 1, 2015, causing investors to sustain substantial losses.

10. Defendants would subsequently admit, on May 11, 2016 in an amendment to Ambac's Annual Report on Form 10-K that management had "identified a material weakness in its internal control over financial reporting." Accordingly, management concluded that "the Company has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)." The material weaknesses identified include weaknesses related to the Company's "estimate of loss reserves and subrogation recoverables, investment income and assessing other than temporary impairment for purchased residential mortgage backed securities."

11. The Ambac Defendants (defined below) acted with knowledge and/or with reckless disregard for the fact that their Class Period statements were materially false and misleading when made.

## **JURISDICTION AND VENUE**

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

13. This Court has subject matter jurisdiction over this action under §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1331. In connection with the acts, conduct and other wrongs alleged herein, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the U.S. mails, interstate telephone communications, and the facilities of the NASDAQ (a national securities exchange located in this District).

14. Venue is proper in this District pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b).

## **THE PARTIES**

15. Plaintiff \_\_\_\_\_ purchased Ambac common stock during the Class Period at artificially inflated prices and has been damaged thereby.

16. Defendant Ambac is a holding company whose subsidiaries provide financial guarantee products and other financial services to clients in both the public and private sectors around the world. During all times relevant hereto, the Company's common stock was traded on the NASDAQ under the ticker symbol "AMBC."

17. Defendant Diana N. Adams ("Adams") previously served as the Company's President and Chief Executive Officer ("CEO") from July 7, 2011 to December 31, 2014. Prior to that, Adams served as Senior Managing Director and Ambac's Chief Administrative Officer with executive responsibility for Human Resources, Technology and Administration. During the Class Period, Adams was responsible for the Company's false statements until her resignation in

December 2014. Defendant Adams directly participated in the management and the day-to-day operations of the Company and had actual knowledge of confidential proprietary information concerning Ambac and its business, operations, growth, financial statements, and financial condition. Moreover, because of her position of control and authority, her ability to exercise power and influence with respect to Ambac's course of conduct, and her access to material inside information about Ambac during the Class Period, at all material times until her resignation in December 2014, Defendant Adams was a controlling person of Ambac within the meaning of §20(a) of the 1934 Act. As alleged herein, during the Class Period, Ambac made materially false and misleading statements concerning Ambac and its financial well-being in the Company's press releases and SEC filings.

18. Defendant David Trick ("Trick") has been the Chief Financial Officer ("CFO") and Treasurer of Ambac since January 2010 and May 10, 2006, respectively. Trick has also been the CFO and Treasurer of Ambac Assurance Corporation ("Ambac Assurance") since January 6, 2010. During the Class Period, Trick was responsible for the Company's false financial statements. Defendant Trick directly participated in the management and day-to-day operations of the Company and had actual knowledge of confidential proprietary information concerning Ambac and its business, operations, growth, financial statements, and financial condition. Moreover, because of his position of control and authority, his ability to exercise power and influence with respect to Ambac's course of conduct, and his access to material inside information about Ambac during the Class Period, at all material times, Defendant Trick was a controlling person of Ambac within the meaning of §20(a) of the 1934 Act. As alleged herein, during the Class Period, Defendant Trick made materially false and misleading statements concerning Ambac and its financial well-being.

19. Defendant Nader Tavakoli (“Tavakoli”) has been the President and CEO of Ambac since January 1, 2015, following Defendant Adams’s resignation on December 31, 2014. Tavakoli was the Co-Chairman of the Board of Directors of Ambac and Ambac Assurance from May 1, 2013 until his appointment as President and CEO. During the Class Period, Tavakoli was responsible for the Company’s false statements. Defendant Tavakoli directly participated in the management and the day-to-day operations of the Company and had actual knowledge of confidential proprietary information concerning Ambac and its business, operations, growth, financial statements, and financial condition. Moreover, because of his position of control and authority, his ability to exercise power and influence with respect to Ambac’s course of conduct, and his access to material inside information about Ambac during the Class Period, at all material times, Defendant Tavakoli was a controlling person of Ambac within the meaning of §20(a) of the 1934 Act. As alleged herein, during the Class Period, Ambac made materially false and misleading statements concerning Ambac and its financial well-being in the Company’s press releases and SEC filings.

20. Defendant Jeffrey S. Stein (“Stein”) has served as a director of Ambac since 2013 and as Chairman of the Board since 2015. Stein also served as a member of the Audit Committee, Governance and Nominating Committee, Strategy and Risk Policy Committee and Compensation Committee. During the Class Period, Stein was responsible for the Company’s false statements. Defendant Stein directly participated in the management of the Company and had actual knowledge of confidential proprietary information concerning Ambac and its business, operations, growth, financial statements, and financial condition. Moreover, because of his position of control and authority, his ability to exercise power and influence with respect to Ambac’s course of conduct, and his access to material inside information about Ambac during



the Class Period, at all material times, Defendant Stein was a controlling person of Ambac within the meaning of §20(a) of the 1934 Act. As alleged herein, during the Class Period, Ambac made materially false and misleading statements concerning Ambac and its financial well-being in the Company's press releases and SEC filings.

21. Defendants Adams, Trick, Tavakoli and Stein are collectively referred to hereinafter as the "Ambac Defendants." The Ambac Defendants, because of their positions within the Company, possessed the power and authority to control the contents of Ambac's reports filed with the SEC. Each Ambac Defendant had the ability and opportunity to prevent their issuances or cause them to be corrected. The Ambac Defendants are liable for the misstatements pleaded herein.

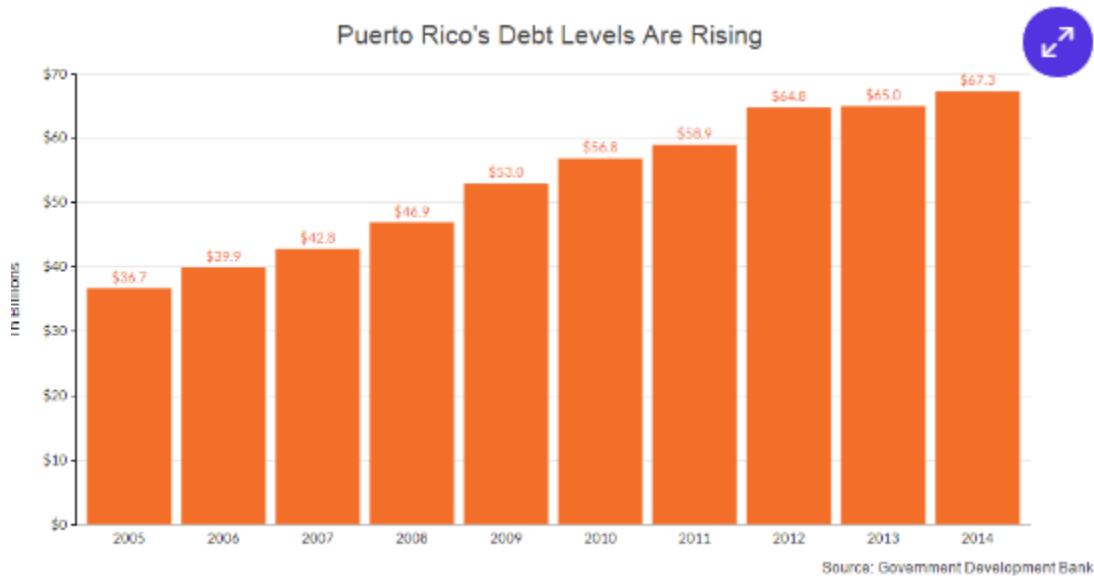
## **BACKGROUND**

### **I. Company Background**

22. Ambac provides financial guarantee products and other financial services to clients in the public and private sectors worldwide through its principal operating subsidiary, Ambac Assurance. Ambac operates in two segments: financial guarantee and financial services. The financial guarantee segment offers financial guarantee insurance and other credit enhancement products, such as credit derivatives for public finance and structured finance obligations. It also provides financial guarantees for bond issues and other forms of debt financing. This segment sells its products in the U.S. public finance market, the U.S. structured finance and asset-backed market, and the international finance market.

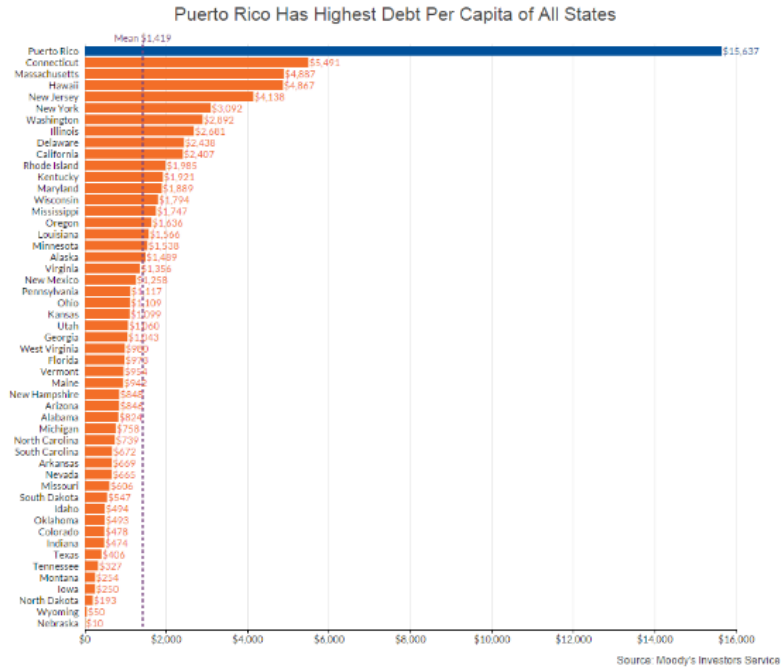
23. Through its financial services subsidiaries, the Company provides financial and investment products, including investment agreements, funding conduits, interest rate, currency and total return swaps, principally to its clients of the financial guarantee business.

24. Ambac Assurance directly insures approximately \$65 billion in public finance bonds, \$2.5 billion of which is Puerto Rican-related debt. Puerto Rico has a special tax status that dates to 1917 and the passage by the U.S. Congress of the Jones-Shafroth Act. Accordingly, unlike the bonds of most states and municipalities, Puerto Rico's are exempt from local, state and federal taxes everywhere in the United States. This competitive advantage made it easy for Puerto Rico to double its debt in 10 years by selling bonds to plug annual budget deficits and pay for operating expenses, and reach unsustainable levels by 2014:

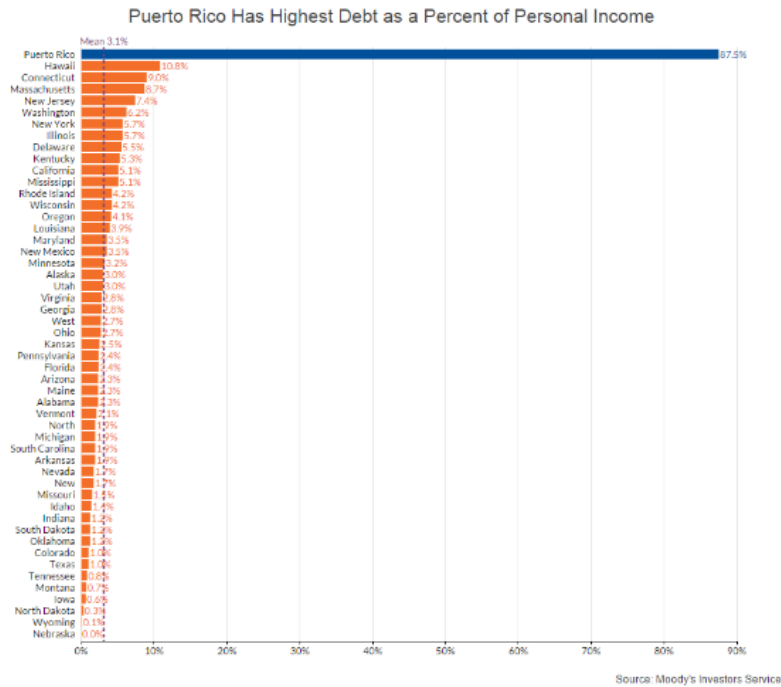


25. While the municipal-bond market is typically known as a safe investment for income-seekers, Puerto Rico's economy has contracted every year except one since 2006 and its poverty rate is now almost double that of Mississippi, the poorest state. As a result, Puerto Rico has the population of Oklahoma and an economy smaller than Kansas, but more debt — \$70 billion — than any U.S. state government except California and New York. In July 2014, debt service accounted for 27% of Puerto Rico's government revenues, more than double the highest share of any U.S. state, according to Moody's Investors Service; similarly, as of July 2015,

Puerto Rico has higher debt per capita and higher debt as a percent of personal income than any U.S. state:



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26. In light of Ambac's inherently risky guarantee portfolio, including approximately \$2.5 billion in Puerto Rican bonds, the Ambac Defendants knew they were likely to become liable for material payments when Puerto Rico inevitably defaulted on its debt obligations. Defendants, however, failed to disclose to investors the Company's true loss exposure to Puerto Rican and other public finance bonds and, instead, continued to represent to investors that "[w]e have historically experienced low levels of defaults in our public finance insured portfolio...[h]igh severity outcomes are unprecedented, [and] would represent a paradigm shift in the municipal bond market."

27. Investors would ultimately begin to learn the truth about the risk and quality of Ambac's guarantee portfolio when, on June 29, 2015, Puerto Rico's governor announced that the island's more than \$70 billion in debt was "not payable" and Puerto Rico would likely default on upcoming interest payments. The governor's announcement made Ambac's true exposure immeasurably apparent: the Company was now potentially liable for up to \$2.5 billion of the Commonwealth's debt it insures.

28. Such news would send the Company's stock price careening downwards, falling roughly 29 percent, from a closing price of \$22.38 per share on June 26, 2015, to a closing price of \$15.91 per share on July 1, 2015. Not surprisingly, since this announcement, Ambac has continued to record significant write-offs to account for the substantial undisclosed losses related to Puerto Rican bonds.

29. On May 11, 2016, Defendants filed an amendment to the Company's Annual Report on Form 10-K for the year-ended December 31, 2015, reporting that the Company "identified a material weakness in its internal control over financial reporting." Accordingly, management concluded that "the Company has not maintained effective internal control over

financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).” The material weaknesses identified include weaknesses related to the Company’s “estimate of loss reserves and subrogation recoverables, investment income and assessing other than temporary impairment for purchased residential mortgage backed securities.” On the news, Ambac’s stock dropped from \$16.03 to \$15.38 per share.

**DEFENDANTS’ MATERIALLY FALSE AND MISLEADING  
CLASS PERIOD STATEMENTS AND OMISSIONS**

30. In order to conceal the Company’s true financial condition from investors throughout the Class Period, the Ambac Defendants issued a series of pervasive and material misstatements and omitted material facts in the Company’s public filings and press releases. These material misstatements and omissions created the false impression that Ambac was financially stable and its financial condition was improving following the 2008 financial crisis. This false impression caused the Company’s stock price to be artificially inflated throughout the Class Period. As investors would eventually learn, Ambac’s loss exposure and financial condition were far worse than represented.

**II. Materially False and Misleading Statements in the November 13, 2013 Press Release**

31. On November 13, 2013, Ambac issued a press release entitled “Ambac Financial Group, Inc. Announces Third Quarter 2013 Results” (the “November 13 Press Release”). The November 13 Press Release falsely reported a net benefit for Loss and loss expenses for the third quarter 2015 of \$154.3 million.

32. In the November 13 Press Release, Defendant Adams was quoted as stating:

We are making good progress on our two strategic priorities —realizing the maximum return on our investment in Ambac Assurance and seeking to diversify and grow our business focus and broaden our revenue base. We are committed to

driving value through the execution of these strategies and to providing transparency regarding our progress and performance."

33. Similarly, in a Form 8-K filed by the Company on November 14, 2013, reporting financial results for the third quarter 2013 ended September 30, 2013, the Company minimized its loss exposure to public finance bonds by reporting: "[t]he Company continues to shift the Financial Guarantee investment portfolio away from tax-exempt municipal securities toward higher yielding assets." Moreover, with respect to this quarter's financial results, Defendant Adams falsely stated:

We are making good progress on our two strategic priorities – realizing the maximum return on our investment in Ambac Assurance and seeking to diversify and grow our business focus and broaden our revenue base. *We are committed to driving value through the execution of these strategies and to providing transparency regarding our progress and performance.*

Emphasis Added.

### **III. Materially False and Misleading Statements in the 2013 Annual Report**

34. On March 3, 2014, Ambac filed its 2013 Annual Report on Form 10-K for the period-ended December 31, 2013 (the "2013 Annual Report") with the SEC, which was signed by Defendants Trick, Adams, Tavakoli and Stein. The 2013 Annual Report contained several categories of materially false and misleading statements concerning Ambac's: (i) losses and reserve for losses on Puerto Rican bonds; (ii) policies and procedures for managing and detecting that risk; (iii) internal control; and (iv) Ambac's true financial condition.

35. Specifically, in the 2013 Annual Report, the Ambac Defendants falsely represented that Ambac "actively manag[es] its assets and liabilities" and has "historically experienced low levels of defaults in our public finance insured portfolio." In addition, the Company further represented:

Ambac's portfolio of U.S. public finance exposures is \$116,062 million, representing 65% of Ambac's net par outstanding as of December 31, 2013 and a

19% reduction from outstandings at December 31, 2012. This reduction in exposure was mainly the result of lease and tax-backed terminations and normal exposure runoff.

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Ambac Assurance's and Everspan's investment objectives are to achieve the highest risk-adjusted after-tax yield on a diversified portfolio consistent with Ambac Assurance's and Everspan's risk tolerance while employing active asset/liability management practices to satisfy all operating and strategic liquidity needs. ***Ambac Assurance's investment portfolio is subject to internal investment guidelines and is subject to limits on types and quality of investments*** imposed by applicable insurance laws and regulations. Ambac Assurance purchases Ambac Assurance insured securities given their relative risk/reward characteristics in order to mitigate the effect of potential future adverse development in the insured portfolio.

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***We have historically experienced low levels of defaults in our public finance insured portfolio***, including during the financial crisis that began in mid-2007... In our experience, ***losses in the public finance portfolio have been contained***, with most of our adversely classified credits resolving without loss to Ambac... ***High severity outcomes are unprecedented, would represent a paradigm shift in the municipal bond market and have not been factored into our current loss reserves in most cases.***

Emphasis Added.

36. In the 2013 Annual Report, Defendants also falsely represented that Ambac maintained adequate internal mechanisms for recognizing and managing risk with respect to its guarantee portfolio:

Ambac's primary goal is to maximize shareholder value through executing the following key strategies:

- Increasing the value of its investment in Ambac Assurance Corporation ("Ambac Assurance") by ***actively managing its assets and liabilities with a focus on maximizing investment portfolio returns and mitigating or remediating losses on poorly performing transactions***, including through executing policy commutations, repurchasing liabilities at a discount, pursuing recoveries of losses through litigation and the exercise of contractual and legal rights, and restructuring transactions; and
- Pursuing new financial services businesses, apart from Ambac Assurance and Everspan Financial Guarantee Corp. These new businesses may include advisory, asset servicing, asset management and/or insurance.

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*De-risking and other Settlements of Financial Guarantee Contracts.* As part of its efforts to increase the residual value of its financial guarantee business, **Ambac Assurance pursues loss mitigation strategies**, including seeking recovery of paid claims, commencing litigation to recover losses or mitigate future losses, entering into commutations of policies at discounts to their expected losses and purchasing Ambac-insured securities (collectively “de-risking”). Ambac Assurance considers the cash payment, if any, as well as the potential for lost future premium receipts in its review of the economic impact of executing such de-risking transactions.

Emphasis Added.

37. Moreover, in estimating credit risk, Ambac purportedly maintained a bond-specific surveillance strategy:

### **Credit Risk**

Ambac is exposed to credit risk in various capacities including as an issuer of financial guarantees, including credit default swaps, as counterparty to reinsurers, derivative and other financial contracts and as a holder of investment securities.

*Financial Guarantees—Risk Management’s focus is on surveillance, remediation, loss mitigation and risk reduction.* Surveillance analysts review, on a regular and ad hoc basis, credits in the financial guarantee book of business. *Risk-adjusted surveillance strategies have been developed for each bond type. The monitoring activities are designed to detect deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely impact the portfolio.* Active surveillance enables Portfolio Risk Management to track single credit migration and industry credit trends. In some cases, Portfolio Risk Management will engage workout experts, attorneys and other consultants with appropriate expertise in the targeted loss mitigation to assist management in examining the underlying contracts or collateral, providing industry specific advice and/or executing strategies.

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Emphasis Added.

## **IV. Materially False and Misleading Statements in the March 27 Investor Day Presentation**

38. On March 27, 2014, Defendants held an Investor Day for the Company’s public stockholders. In the Investor Day Presentation provided to shareholders, Defendants falsely stated that the Company was pursuing two paths “to create long-term shareholder value”



consisting of: (i) “Maximiz[ing] the value of existing financial guarantee operations”; and (ii) increasing profitability by “grow[ing] and diversify[ing] through the acquisition and/or development of new business opportunities.” According to Defendant Adams during a conference call that same day, this would take “months not years.”

39. Substantially similar representations were made in the Company’s periodic Form 10-Q quarterly reports and other public filings and press releases during the Class Period.

40. The above statements were materially false and misleading at the time they were made because, contrary to Defendants’ assertions: (i) the Company had far greater losses and loss exposure to anticipated defaults in its public finance bond portfolio than it had previously disclosed; (ii) the Company’s credit risk surveillance strategies were inadequate; (iii) the Company was failing to implement mitigation strategies in a timely manner to stabilize the residual value of its financial guarantee business; (iv) as a result of the foregoing, the Company’s financial condition was much worse than represented; and (v) Ambac failed to maintain adequate internal controls over financial reporting.

### **LOSS CAUSATION**

41. The market for Ambac common stock was open, well-developed, and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, Ambac stock traded at artificially inflated prices during the Class period. Plaintiff and other members of the Class purchased or otherwise acquired Ambac stock relying upon the integrity of the market of Ambac and market information related to the Company, and have been damaged thereby.

42. During the Class Period, the Ambac Defendants named in this Action materially misled the investing public, thereby inflating the price of Ambac stock, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make their

own statements, as set forth herein, not false and/or misleading. Said statements and omissions were materially false and/or misleading in that they failed to disclose material adverse information and/or misrepresented the truth about Ambac's business, operations, and prospects as alleged herein.

43. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, the Ambac Defendants named in this Action made or caused to be made a series of materially false and/or misleading statements about Ambac's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's stock to be overvalued and artificially inflated at all relevant times. The materially false and/or misleading statements made by the Ambac Defendants named in this Action during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

44. During the Class Period, as detailed herein, the Ambac Defendants engaged in a scheme to deceive the market and a course of conduct that caused the price of Ambac stock to be artificially inflated by failing to disclose and/or misrepresenting the adverse facts detailed herein. As the Ambac Defendants' misrepresentations and fraudulent conduct were gradually disclosed and became apparent to the market, the artificial inflation in the price of Ambac's stock was removed, and the price of Ambac stock fell.

45. As a result of their purchases of Ambac stock during the Class Period at artificially inflated prices, Plaintiff, and the other Class members suffered economic loss, i.e., damages, under the federal securities laws.

46. The timing and magnitude of the price decline in Ambac stock negate any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to the Ambac Defendants' fraudulent conduct.

### **CLASS ACTION ALLEGATIONS**

47. Plaintiff bring this action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class of all persons or entities that purchased or otherwise acquired Ambac common stock during the Class Period, seeking to pursue remedies under the Exchange Act (the "Class").

48. Excluded from the Class are Ambac and its subsidiaries and affiliates, and their respective officers and directors at all relevant times, and any of their immediate families, legal representatives, heirs, successors, or assigns, and any entity in which any Defendant has or had a controlling interest.

49. Because Ambac had millions of common shares outstanding during the Class Period, and because its shares were actively traded on the NASDAQ, the members of the Class are so numerous that joinder of all Class members is impracticable. While the exact number of Class members is unknown at this time and can only be ascertained through discovery, Plaintiff believes that there are, at a minimum, thousands of Class members. Members of the Class may be identified from records maintained by Ambac or its transfer agent and may be notified of the pendency of this action by mail, using forms of notice customarily used in securities class actions.

50. Plaintiff's claims are typical of those of the members of the Class, as all Class members have been similarly affected by Defendants' wrongful conduct as alleged herein.

51. Plaintiff will fairly and adequately protect the interests of the Class and have retained counsel competent and experienced in class action and securities litigation.

52. Common questions of law and fact exist as to all Class members and predominate over any questions solely affecting individual Class members. These common questions include:

- a. Whether Defendants violated the federal securities laws as alleged herein;
  - b. Whether Defendants' statements to the investing public during the Class Period misrepresented material facts about Ambac's business and operations;
  - c. Whether the price of Ambac stock was artificially inflated during the Class Period;
- and
- d. The extent to which members of the Class have sustained damages and the proper measure of damages.

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

#### **NO STATUTORY SAFE HARBOR**

54. 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 Class Action 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

statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward- looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of Ambac who knew that the statement was false when made.

#### **APPLICABILITY OF FRAUD ON THE MARKET DOCTRINE**

55. The market for Ambac stock was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, Ambac stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired the Company’s stock relying upon the integrity of the market price of Ambac and market information relating to the Company, and have been damaged thereby.

56. During the Class Period, the artificial inflation of Ambac stock was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, the Defendants named in this Action made or caused to be made a series of materially false and/or misleading statements about Ambac’s business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of Ambac and its business, operations, and prospects, thus causing the price of the Company’s stock to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company stock. The Defendants’ materially false and/or misleading statements

during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's stock at such artificially inflated prices, and each of them has been damaged as a result.

57. At all relevant times, the market for Ambac stock was an efficient market for the following reasons:

- a. Ambac stock met the requirements for listing, and was listed and actively traded on the NASDAQ Stock Exchange, a highly efficient and automated market;
- b. As a regulated issuer, Ambac filed periodic public reports with the SEC and the NASDAQ;
- c. Ambac communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;
- d. During the class period, on average, over several hundreds of thousands Ambac shares were traded on a weekly basis. On news days, the Company's trading volume increased into the millions, reflecting an active trading market for Ambac stock and investors' expectations being impounded into the stock price; and
- e. The proportion of statistically significant stock price movement days for Ambac stock on news days is significantly over the proportion of non-news days and, thus, Ambac shares are more likely to have a statistically significant return on a day with news than no-news, consistent with an informationally efficient market.

## COUNT I

### **For Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Against Ambac and the Ambac Defendants**

58. Plaintiff realleges each allegation as if fully set forth herein.

59. This claim is brought under §10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5, against Ambac and the Ambac Defendants (the “Count I Defendants”).

60. The Count I Defendants (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted 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 and deceit upon Plaintiff and the Class, in violation of §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

61. The Count I Defendants individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or the mails, engaged and participated in a continuous course of conduct to conceal non-public, adverse material information about the Company’s financial condition as reflected in the misrepresentations and omissions set forth above.

62. The Count I Defendants each had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth by failing to ascertain and to disclose such facts even though such facts were available to them, or deliberately refrained from taking steps necessary to discover whether the material facts were false or misleading.

63. As a result of the Count I Defendants’ dissemination of materially false and misleading information and their failure to disclose material facts, Plaintiff and the Class were

misled into believing that the Company's statements and other disclosures were true, accurate, and complete.

64. Ambac is liable for the acts of the Individual Defendants and other Company personnel referenced herein under the doctrine of respondeat superior, as those persons were acting as the officers, directors, and/or agents of Ambac in taking the actions alleged herein.

65. Plaintiff and the Class purchased Ambac common stock, without knowing that the Count I Defendants had misstated or omitted material facts about the Company's financial performance or prospects. In so doing, Plaintiff and the Class relied directly or indirectly on false and misleading statements made by the Count I Defendants, and/or an absence of material adverse information that was known to the Count I Defendants or recklessly disregarded by them but not disclosed in the Count I Defendants' public statements. Plaintiff and the Class were damaged as a result of their reliance on the Count I Defendants' false statements and misrepresentations and omissions of material facts.

66. At the time of the Count I Defendants' false statements, misrepresentations and omissions, Plaintiff and the Class were unaware of their falsity and believed them to be true. Plaintiff and the Class would not otherwise have purchased Ambac common stock had they known the truth about the matters discussed above.

67. By virtue of the foregoing, the Count I Defendants have violated §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

68. As a direct and proximate result of the Count I Defendants' wrongful conduct, Plaintiff and the Class have suffered damages in connection with their purchase of Ambac common stock.

## **COUNT II**

### **For Violations of Section 20(a) of the Exchange Act**



### **Against Ambac and the Ambac Defendants**

69. Plaintiff realleges each allegation as if fully set forth herein.

70. This claim is brought under §20(a) of the Exchange Act, 15 U.S.C. § 78t, against the Ambac and the Ambac Defendants (the “Count II Defendants”).

71. Each of the Count II Defendants, by reason of their status as senior executive officers and/or directors of Ambac, directly or indirectly, controlled the conduct of the Company’s business and its representations to Plaintiff and the Class, within the meaning of §20(a) of the Exchange Act. The Count II Defendants directly or indirectly controlled the content of the Company’s SEC statements and press releases related to Plaintiff and the Class’ investments in Ambac common stock within the meaning of §20(a) of the Exchange Act. Therefore, the Count II Defendants are jointly and severally liable for the Company’s fraud, as alleged herein.

72. The Count II Defendants controlled and had the authority to control the content of the Company’s SEC statements and press releases. Because of their close involvement in the everyday activities of the Company, and because of their wide-ranging supervisory authority, the Count II Defendants reviewed or had the opportunity to review these documents prior to their issuance, or could have prevented their issuance or caused them to be corrected.

73. The Count II Defendants knew or recklessly disregarded the fact that Ambac’s representations were materially false and misleading and/or omitted material facts when made. In so doing, the Count II Defendants did not act in good faith.

74. By virtue of their high-level positions and their participation in and awareness of Ambac’s operations and public statements, the Count II Defendants were able to and did influence and control Ambac’s decision-making, including controlling the content and

dissemination of the documents that Plaintiff and the Class contend contained materially false and misleading information and on which Plaintiff and the Class relied.

75. The Count II Defendants had the power to control or influence the statements made giving rise to the securities violations alleged herein, and as set forth more fully above.

76. As set forth herein, the Count II Defendants each violated §10(b) of the Exchange Act and Rule 10b-5, thereunder, by their acts and omissions as alleged herein. By virtue of their positions as controlling persons, the Ambac Defendants are also liable pursuant to §20(a) of the Exchange Act.

77. As a direct and proximate result of the Count II Defendants' wrongful conduct, Plaintiff and the Class suffered damages in connection with their purchase of Ambac common stock

#### **PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

- A. Declaring this action to be a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure and certifying Plaintiff as a representative of the Class;
- B. Awarding Plaintiff and the members of the Class damages, including interest;
- C. Awarding Plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such other relief as the Court may deem just and proper.

#### **JURY DEMAND**

In accordance with Fed. R. Civ. P. 38(b), Plaintiff demands a jury trial of all issues involved, now, or in the future, in this action.