

In re Tower Group International, Ltd. Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 13 Civ 5852
CLASS PERIOD: 03/01/2011 - 10/07/2013
CASE LEADERS: James A. Harrod

Securities fraud class action asserting claims under Section 10(b), Section 20(a), and Section 20A of the Exchange Act on behalf of persons and entities who purchased or acquired Tower Group International, Inc., or its predecessors ("Tower" or the "Company"), common stock from March 1, 2010 through December 17, 2013, inclusive (the "Class Period"). Defendants include the Company and certain members of the Company's senior management, as well as Tower's auditor during the Class Period, PricewaterhouseCoopers LLP (collectively, "Defendants"). Additional federal securities law and state law claims are also brought on behalf of investors that acquired shares of Canopus Bermuda in a March 7, 2013 private placement (the "Private Placement Class"). Tower is a New York-based insurance and reinsurance company.

On June 17, 2014, the Court appointed Jacksonville Police and Fire Pension Fund and the Kansas City, Missouri Employees' Retirement System as Co-Lead Plaintiffs and BLB&G as Co-Lead Counsel. Plaintiffs filed an Amended Consolidated Complaint on December 23, 2014.

Plaintiffs allege that the Tower Defendants intentionally, or at the least recklessly, understated Tower's loss reserves, a critical metric for insurance companies, overstated its net income, and misrepresented the effectiveness of the Company's internal controls over its loss reserving process during the Class Period. Specifically, throughout the Class Period, Tower portrayed itself as a healthy and solvent insurance company, reporting profits of \$233 million from 2008 through 2012. Further, the Tower Defendants consistently touted the Company's internal controls and "conservative, rigorous reserving process" that established losses and loss reserves only after "prudently" considering all known information. The Tower Defendants similarly assured investors that despite the Company's numerous acquisitions in the years leading up to the Class Period, all of the acquired businesses were fully integrated into Tower's accounting system and were accurately captured in the Company's financial results and loss reserves.

The truth about Tower's loss reserves and internal controls came to light in a series of disclosures beginning on August 7 and 8, 2013 when the Company postponed the release of its second quarter 2013 financial results and stated that it would increase its loss reserves by as much as \$110 million. Tower announced a further delay of its second quarter 2013 results on September 17, 2013. On October 7, 2013, Tower announced that it would take a charge of \$365 million to increase its loss reserves dating back to 2009. Then, on November 14, 2013, the Company announced that it would be restating its financial statements for 2011 and 2012, that its financial statements from that period "should no longer be relied upon" because of material weaknesses in its internal controls, and that it had "determined that inadvertent mistakes in classification of insurance premiums by line of business resulted in (1) an increase in the loss and loss adjustment expenses by \$9.6 million, \$21.7 million and \$5.7 million, for the years ended December 31, 2012, 2011 and 2010, respectively" for a total restatement of \$37.4 million. Next, on November 22, 2012, Tower disclosed that it had completed a "comprehensive review" of the Company's loss

reserves as of June 30, 2013 and had increased its loss reserves in the second quarter of 2013 by \$326.7 million, attributable primarily to accident years 2008-2011 within the workers' compensation, commercial multi-peril liability, other liability and commercial auto liability lines of business. Finally, on December 17, 2013, the Company announced it would be taking another reserve charge of between \$75 and \$105 million. All told, in response to these numerous partial disclosures, Tower's stock price fell \$18.81 per share in the aggregate from August 7, 2013 to December 17, 2013, representing a staggering decline of nearly 90% in only four months. During the Class Period, Tower belatedly increased its loss reserves by \$570 million, and ultimately was forced to sell itself in a firesale.

This action seeks to recover the damages caused by the Defendants' fraudulent accounting and a company-wide practice of reserve suppression that resulted in the over half a billion dollar reserve understatements. On June 22, 2015 after briefing on the motion to dismiss was completed, a joint letter was submitted to the Court, informing it that Plaintiffs reached an agreement in principle to settle the outstanding claims against the Tower Defendants in this action. On July 21, 2015, Lead Plaintiffs filed a Stipulation of Settlement and Motion for Preliminary Approval of Settlement relating to the settlement with the Tower Defendants. The Court approved the settlement on November 23, 2015.

On September 18, 2015, the Court entered an order granting defendant PricewaterhouseCoopers LLP's motion to dismiss.

The claims administration process has concluded and the net settlement fund has been fully disbursed. This matter is considered closed.

Case Documents

- Notice of (I) Pendency of Class Action, Certification of Settlement Classes, and Proposed Settlement; (II) Settlement Hearing; and (III) Motion for an Award of Attorneys' Fees and Reimbursement of Litigation Expenses
- October 14, 2015 - Memorandum Of Law In Support Of Lead Plaintiffs' Motion For Final Approval Of Class Action Settlement With Tower Defendants And Approval Of Plan Of Allocation Of Settlement Proceeds
- October 14, 2015 - Memorandum Of Law In Support Of Lead Counsel's Motion For An Award Of Attorneys' Fees And Reimbursement Of Litigation Expenses
- September 18, 2015 - Memorandum and Order on Motion to Dismiss
- September 10, 2015 - Order
- May 11, 2015 - Lead Plaintiffs' Letter Submitting the Genworth Opinion as Supplemental Authority
- April 30, 2015 - Lead Plaintiffs' Letter Concerning the Impact of the Omnicare Opinion
- March 6, 2015 - Lead Plaintiffs' Brief in Opposition to the Tower Defendants' Motion to Dismiss
- December 23, 2014 - Amended Class Action Complaint