

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

_____, Individually and on behalf of all others
similarly situated,

Plaintiff,

v.

MEDALLION FINANCIAL CORP., ALVIN
MURSTEIN, and LARRY D. HALL,

Defendants.

Case No.

CLASS ACTION COMPLAINT FOR
VIOLATION OF THE FEDERAL
SECURITIES LAWS

JURY TRIAL DEMANDED

CLASS ACTION

Plaintiff _____, (“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 Plaintiff’s attorneys, which included, among other things, a review of the defendants’ public documents, and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Medallion Financial Corp. (“Medallion” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff

believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of all persons and entities who purchased the publicly traded securities of Medallion between August 14, 2018 and December 29, 2021, both dates inclusive (the “Class Period”). Plaintiff seeks to recover compensable damages caused by Defendants’ violations of the federal securities laws under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

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

3. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §1331 and §27 of the Exchange Act.

4. Venue is proper in this judicial district pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as the alleged misstatements entered and subsequent damages took place within this judicial district.

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

PARTIES

6. Plaintiff, as set forth in the accompanying certification, incorporated by reference herein, purchased Medallion's securities during the Class Period and was economically damaged thereby.

7. Defendant Medallion purports to be a specialty finance company which originates, acquires, and services loans that finance taxicab medallions and various types of commercial businesses. Its segments include recreation lending, home improvement lending, commercial lending, and medallion lending. The Company is incorporated in Delaware with its principal executive offices located at 437 Madison Ave., 38th Floor, New York, NY 10022. The Company's securities are traded on NASDAQ under the ticker symbol "MFIN."

8. Defendant Alvin Murstein ("Murstein") has served as Medallion's Chief Executive Officer throughout the Class Period.

9. Defendant Larry D. Hall ("Hall") has served as Medallion's Chief Financial Officer throughout the Class Period.

10. Defendants Murstein and Hall are sometimes referred to herein as the "Individual Defendants."

11. Each of the Individual Defendants:

- (a) directly participated in the management of the Company;
- (b) was directly involved in the day-to-day operations of the Company at the highest levels;
- (c) was privy to confidential proprietary information concerning the Company and its business and operations;

- (d) was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
- (e) was directly or indirectly involved in the oversight or implementation of the Company's internal controls;
- (f) was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or
- (g) approved or ratified these statements in violation of the federal securities laws.

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

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

14. The Company and the Individual Defendants are referred to herein, collectively, as the "Defendants."

SUBSTANTIVE ALLEGATIONS

Background

15. On December 20, 2017, a stockholder derivative action was filed in the Supreme Court of the State of New York, County of New York, styled *Shields v. Murstein, et al.*, alleging certain directors breached their fiduciary duties. The lawsuit alleged that the directors engaged an independent contractor to post about the Company under a pseudonym.

Materially False and Misleading Statements

16. On August 14, 2018, Medallion filed a Form 10-Q for the fiscal quarter ended June 30, 2018 (the "2Q 2018 10-Q"). Attached to the 2Q 2018 10-Q were certifications pursuant to the Sarbanes-Oxley Act of 2002 ("SOX") signed by Defendants Murstein and Hall attesting to the

accuracy of financial reporting, the disclosure of any material changes to the Company's internal control over financial reporting and the disclosure of all fraud.

17. The 2Q 2018 10-Q listed among its Legal Proceedings the then-pending shareholder derivative lawsuit. In pertinent part, the 2Q 2018 10-Q stated:

“On December 20, 2017, a stockholder derivative action was filed in the Supreme Court of the State of New York, County of New York (*Shields v. Murstein, et al.*). The complaint names us as a nominal defendant and purports to assert claims derivatively on our behalf against certain of our current directors, one of our former directors, and a former independent contractor for one of our subsidiaries. ***The complaint alleges that the director defendants breached their fiduciary duties with respect to certain alleged misconduct by the former independent contractor involving postings about us under an alleged pseudonym.*** On January 25, 2018, we and the director defendants filed a motion to dismiss the action. Plaintiff filed his opposition to the motion on March 1, 2018. We and the director defendants filed reply papers in further support of the motion on March 22, 2018. A hearing on the motion to dismiss was held on June 27, 2018, and the parties are awaiting a ruling on the motion. ***We believe the case is without merit and intend to defend it vigorously.***”

(Emphasis added.)

18. On March 13, 2019, Medallion filed a Form 10-K for the fiscal year ended December 31, 2018 (the “2018 10-K”). Attached to the 2018 10-K were SOX certifications signed by Defendants Murstein and Hall attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company's internal control over financial reporting and the disclosure of all fraud.

19. The 2018 10-K stated, in its Legal Proceedings, that the Company had successfully dismissed the shareholder derivative lawsuit. The 2018 10-K stated, in relevant part:

“On December 20, 2017, a stockholder derivative action was filed in the Supreme Court of the State of New York, County of New York (*Shields v. Murstein, et al.*). The complaint named us as a nominal defendant and purports to assert claims derivatively on our behalf against certain of our current directors, one of our former directors, and a former independent contractor for one of our subsidiaries. ***The complaint alleged that the director defendants breached their fiduciary duties with respect to certain alleged misconduct by the former independent contractor***

involving postings about us under an alleged pseudonym. On January 25, 2018, we and the director defendants filed a motion to dismiss the action. On June 27, 2018, a hearing was held on the motion. On November 26, 2018, the Court entered a decision granting the motion. ***On December 17, 2018, the Court entered an order dismissing the plaintiff's complaint with prejudice. The time for the plaintiff to appeal the Court's order has elapsed.***

(Emphasis added.)

20. On March 30, 2020, Medallion filed a Form 10-K for the fiscal year ended December 31, 2019 (the "2019 10-K"). Attached to the 2019 10-K were SOX certifications signed by Defendants Murstein and Hall attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company's internal control over financial reporting and the disclosure of all fraud.

21. The 2019 10-K did not disclose any ongoing investigations or pending lawsuits. In relevant part, the 2019 10-K said:

*"We are currently involved in various legal proceedings incident to the ordinary course of our business, including collection matters with respect to certain loans. We intend to vigorously defend any outstanding claims and pursue our legal rights. In the opinion of our management and based upon the advice of legal counsel, **there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision could result in a material adverse effect on our results of operations or financial condition.**"*

(Emphasis added.)

22. On March 15, 2021, Medallion filed a Form 10-K for the fiscal year ended December 31, 2020 (the "2020 10-K"). Attached to the 2020 10-K were SOX certifications signed by Defendants Murstein and Hall attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company's internal control over financial reporting and the disclosure of all fraud.

23. The 2020 10-K did not disclose any ongoing investigations or pending lawsuits. The 2020 10-K stated, in relevant part:

“We are currently involved in various legal proceedings incident to the ordinary course of our business, including collection matters with respect to certain loans. We intend to vigorously defend any outstanding claims and pursue our legal rights. In the opinion of our management and based upon the advice of legal counsel, ***there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision could result in a material adverse effect on our results of operations or financial condition.***”

(Emphasis added.)

24. On May 5, 2021, Medallion filed a Form 10-Q for the fiscal quarter ended March 31, 2021 (the “1Q 2021 10-Q”). Attached to the 1Q 2021 10-Q were SOX certifications signed by Defendants Murstein and Hall attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company’s internal control over financial reporting and the disclosure of all fraud.

25. The 1Q 2021 10-Q did not disclose any ongoing investigations or pending lawsuits. The 1Q 2021 10-Q, in pertinent part, stated:

“We are currently involved in various legal proceedings incident to the ordinary course of our business, including collection matters with respect to certain loans. We intend to vigorously defend any outstanding claims and pursue our legal rights. In the opinion of our management and based upon the advice of legal counsel, ***there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision could result in a material adverse effect on our results of operations or financial condition.***”

(Emphasis added.)

26. The statements referenced in ¶¶16-25 above were materially false and/or misleading because they misrepresented and failed to disclose the following adverse facts pertaining to the Company’s business, operational and financial results, which were known to Defendants or recklessly disregarded by them. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (1) the Company violated securities laws by paying independent contractors to post favorable news about the Company under numerous

pseudonyms; (2) the Company misled investors about the nature of their fraudulent acts, including by touting the dismissal of the shareholder derivative lawsuit; (3) the Company failed to disclose the SEC investigation, which had begun as early as 2019; and (4) as a result, Defendants’ public statements were materially false and/or misleading at all relevant times.

The Truth Emerges

27. On December 29, 2021, the SEC filed a lawsuit against Medallion, alleging the Company “perpetuated two fraudulent schemes [to] boost Medallion Financial’s sinking stock price.” In pertinent part, the SEC complaint stated:

“The first scheme involved illegal touting. To try to silence the short-sellers and bloggers that were writing Medallion Financial’s epitaph, Murstein hired Meyers, whose specialty was “stealth” public relations, and paid Meyers to anonymously promote Medallion Financial online. Murstein approved Meyers’s pieces before publication, which did not disclose the payments, and Meyers made hundreds of postings, many of them using pseudonyms. In early 2016, Murstein hired a second person to tout anonymously and, at Murstein’s request, Meyers trained the new touter. [. .]

* * *

The second scheme was to increase Medallion Financial’s stock price by boosting the carrying value, or “fair value,” of Medallion Bank. There was no legitimate basis to do so, however, because of the deteriorating value of the collateral securing the Bank’s medallion loan portfolio. And the valuation firm Medallion Financial used to determine fair value made this clear to Murstein.

Murstein pressured the valuation firm to accept his inflated number. The valuation firm, however, refused. As a result, Murstein abruptly fired the valuation firm and went opinion-shopping for a firm that would agree to value that Bank at his targeted number of \$193 million. Murstein quickly found an investment bank that was lured by his quid pro quo offer: provide the requested valuation number in exchange for much more lucrative investment banking work in the future.

* * *

In 2019, 2020 and 2021, Medallion Financial, Murstein and Meyers signed tolling agreements entered into with the Commission. Each tolling agreement specifies a period of time (a “tolling period”) in which “the running of any statute

of limitations applicable to any action or proceeding against [Medallion Financial, Murstein and Meyers] authorized, instituted, or brought by . . . the Commission . . . arising out of the [Commission’s investigation of Defendants’ conduct], including any sanctions or relief that may be imposed therein, is tolled and suspended” Each tolling agreement further provides that the Defendants and any of their agents or attorneys “shall not include the tolling period in the calculation of the running of any statute of limitations or for any other time-related defense applicable to any proceeding, including any sanctions or relief that may be imposed therein, in asserting or relying upon any such time-related defenses.”

(Emphasis added.)

28. On this news, Medallion’s stock price plummeted from closing on December 28, 2021 at \$8.45 to open on December 29, 2021 at \$3.50. Medallion’s stock closed on December 29, 2021 at \$6.67, a total drop of \$1.78, or over 21%.

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

PLAINTIFF’S CLASS ACTION ALLEGATIONS

30. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the publicly traded securities of Medallion during the Class Period (the “Class”); and were damaged upon the revelation of the alleged corrective disclosure. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

31. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, the Company’s securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can

be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

32. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

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

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

- (a) whether Defendants' acts as alleged violated the federal securities laws;
- (b) whether Defendants' statements to the investing public during the Class Period misrepresented material facts about the financial condition, business, operations, and management of the Company;
- (c) whether Defendants' statements to the investing public during the Class Period omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) whether the Individual Defendants caused the Company to issue false and misleading SEC filings and public statements during the Class Period;

- (e) whether Defendants acted knowingly or recklessly in issuing false and misleading SEC filings and public statements during the Class Period;
- (f) whether the prices of the Company's securities during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and
- (g) whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

35. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all 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 members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

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

- (a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- (b) the omissions and misrepresentations were material;
- (c) the Company's securities are traded in efficient markets;
- (d) the Company's securities were liquid and traded with moderate to heavy volume during the Class Period;
- (e) the Company traded on the NASDAQ, and was covered by multiple analysts;
- (f) the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; Plaintiff and members of the Class purchased and/or sold the Company's securities between the time the

Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts; and

- (g) Unexpected material news about the Company was rapidly reflected in and incorporated into the Company's stock price during the Class Period.

37. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

38. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I
Violation of Section 10(b) of The Exchange Act and Rule 10b-5
Against All Defendants

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

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

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

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

43. The Company and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws. These defendants by virtue of their receipt of information reflecting the true facts of the Company, their control over, and/or receipt and/or modification of the Company's allegedly materially misleading statements, and/or their associations with the Company which made them privy to confidential proprietary information concerning the Company, participated in the fraudulent scheme alleged herein.

44. Individual Defendants, who are the senior officers and/or directors of the Company, had actual knowledge of the material omissions and/or the falsity of the material 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 to ascertain and disclose the true facts in the statements made by them or other personnel of the Company to members of the investing public, including Plaintiff and the Class.

45. As a result of the foregoing, the market price of the Company's securities was artificially inflated during the Class Period. In ignorance of the falsity of the Company's and the Individual Defendants' statements, Plaintiff and the other members of the Class relied on the statements described above and/or the integrity of the market price of the Company's securities during the Class Period in purchasing the Company's securities at prices that were artificially inflated as a result of the Company's and the Individual Defendants' false and misleading statements.

46. Had Plaintiff and the other members of the Class been aware that the market price of the Company's securities had been artificially and falsely inflated by the Company's and the Individual Defendants' misleading statements and by the material adverse information which the Company's and the Individual Defendants did not disclose, they would not have purchased the Company's securities at the artificially inflated prices that they did, or at all.

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

48. By reason of the foregoing, the Company and the Individual Defendants have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the Plaintiff and the other members of the Class for substantial damages which they suffered in connection with their purchases of the Company's securities during the Class Period.

COUNT II
Violation of Section 20(a) of The Exchange Act
Against The Individual Defendants

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

50. During the Class Period, the Individual Defendants participated in the operation and management of the Company, and conducted and participated, directly and indirectly, in the conduct of the Company's business affairs. Because of their senior positions, they knew the adverse non-public information regarding the Company's business practices.

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

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

53. Each of the Individual Defendants, therefore, acted as a controlling person of the Company. By reason of their senior management positions and/or being directors of the Company, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, the Company to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of the Company and possessed the power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

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

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;
- B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;
- C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and
- D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.