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11 Attorneys for Plaintiff

12 UNITED STATES DISTRICT COURT
13 CENTRAL DISTRICT OF CALIFORNIA
14 SOUTHERN DIVISION

15 DANIEL MUNTER, Individually and)
16 on Behalf of All Others Similarly)
Situating,)

17 Plaintiff,)

18 vs.)

19 STEC, INC., MANOUCH)
20 MOSHAYEDI, MARK MOSHAYEDI)
and RAYMOND D. COOK,)

21 Defendants.)

VIA FAX

No.

CLASS ACTION

**COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

DEMAND FOR JURY TRIAL

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1 **JURISDICTION AND VENUE**

2 1. Jurisdiction is conferred by §27 of the Securities Exchange Act of 1934
3 (“1934 Act”). The claims asserted herein arise under §§10(b) and 20(a) of the 1934
4 Act and SEC Rule 10b-5.

5 2. Venue is proper in this District pursuant to §27 of the 1934 Act. Many of
6 the false and misleading statements were made in or issued from this District.

7 3. STEC, Inc.’s (“STEC”) principal executive offices are located at 3001
8 Daimler Street, Santa Ana, California.

9 **INTRODUCTION**

10 4. This is a securities class action on behalf of all persons who purchased or
11 otherwise acquired the common stock of STEC between June 16, 2009 and November
12 3, 2009, inclusive (the “Class Period”), against STEC and certain of its officers and/or
13 directors for violations of the 1934 Act.

14 5. STEC designs, develops, manufactures and markets custom memory
15 solutions based on flash memory and dynamic random access memory (“DRAM”)
16 technologies. STEC makes drives that use flash memory chips instead of spinning
17 disks to store data. The drives, known as solid state since they have no moving parts,
18 are found in servers used by companies, banks, governments and others.

19 6. During the Class Period, defendants issued materially false and
20 misleading statements regarding STEC’s customers, its competitive position and its
21 prospects. STEC once had the solid-state drive (“SSD”) market to itself. However,
22 the Company specifically failed to disclose looming threats of competition from other
23 high technology companies, such that STEC would not be the only company to gain
24 design wins. Defendants assured investors that STEC had no competition at that
25 stage. Defendants further assured investors that enterprise end users were quickly
26 adopting SSD devices over traditional hard disk drive (“HDD”) devices. As a result
27 of defendants’ false and misleading statements, STEC stock traded at artificially
28 inflated prices during the Class Period, reaching a high of \$41.84 per share on

1 September 10, 2009. This inflated stock price permitted the top STEC
2 officers/directors to sell 9 million shares of their STEC stock in a secondary stock
3 offering in August 2009.

4 7. On September 17, 2009, WedBush Morgan published its analyst report
5 on STEC, identifying important adverse information it had obtained, not from the
6 Company, but through its own independent research, stating in part:

- 7 • **Our industry checks indicate that one of STEC's Tier I**
8 **OEM enterprise customers is in final qualification**
9 **stages with Toshiba for its Single Level Cell (SLC)**
10 **NAND-based serial attached SCSI (SAS) interface SSD.**

11 While we had expected STEC's competitors to gain design
12 wins at its OEMs, we believed this would likely not occur
13 until 1H:10E.

- 14 • **Industry checks lead us to believe a leading Hard Disk**
15 **Drive (HDD) OEM is likely set to introduce a SLC**
16 **SATA/SAS SSD and possibly a Multi-Level-Cell (MLC)**
17 **SSD drive in Q4.**

18 8. As a result of this report, which contradicted defendants' prior
19 statements, STEC's stock collapsed \$6.37 per share to close at \$31.53 per share on
20 September 17, 2009 – a one-day decline of over 16%, on volume of more than 21.2
21 million shares.

22 9. Then, on November 3, 2009, after the market closed, STEC reported its
23 third quarter 2009 financial results and its fourth quarter 2009 outlook, announcing
24 that one of its customers would carry 2009 inventory into 2010, impacting the
25 Company's first quarter 2010. STEC identified the customer as EMC Corporation
26 ("EMC"), which accounts for 90% of the Company's ZeusIOPS SSD business. STEC
27 announced an EMC inventory warning, as EMC is carrying inventory rather than
28 placing any new orders.

1 Mark Moshayedi sold 4.5 million shares of his STEC stock for proceeds of nearly
2 \$134 million. Mark Moshayedi signed the Registration Statement for the offering of
3 9 million shares of STEC stock in August 2009.

4 15. Defendant Raymond D. Cook (“Cook”) is, and at all relevant times was,
5 Chief Financial Officer (“CFO”) of STEC. Cook signed the Registration Statement
6 for the offering of 9 million shares of STEC stock in August 2009.

7 16. Defendants Manouch Moshayedi, Mark Moshayedi and Cook (the
8 “Individual Defendants”), because of their positions with the Company, possessed the
9 power and authority to control the contents of STEC’s quarterly reports, press releases
10 and presentations to securities analysts, money and portfolio managers and
11 institutional investors, *i.e.*, the market. They were provided with copies of the
12 Company’s reports and press releases alleged herein to be misleading prior to or
13 shortly after their issuance and had the ability and opportunity to prevent their
14 issuance or cause them to be corrected. Because of their positions with the Company,
15 and their access to material non-public information available to them but not to the
16 public, the Individual Defendants knew that the adverse facts specified herein had not
17 been disclosed to and were being concealed from the public and that the positive
18 representations being made were then materially false and misleading. The Individual
19 Defendants are liable for the false statements pleaded herein.

20 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

21 17. Defendants are liable for: (i) making false statements; or (ii) failing to
22 disclose adverse facts known to them about STEC. Defendants’ fraudulent scheme
23 and course of business that operated as a fraud or deceit on purchasers of STEC
24 common stock was a success, as it: (i) deceived the investing public regarding STEC’s
25 prospects and business; (ii) artificially inflated the price of STEC’s common stock;
26 (iii) allowed defendants Manouch Moshayedi and Mark Moshayedi to sell nearly \$268
27 million worth of their STEC common stock at artificially inflated prices; and (iv)
28

1 caused plaintiff and other members of the Class to purchase STEC common stock at
2 inflated prices.

3 **BACKGROUND**

4 18. STEC designs, develops, manufactures, and markets custom memory
5 solutions based on flash memory and DRAM technologies. Its SSD products include
6 ZeusIOPS SSDs, which provide enterprise-class data storage solutions; MACH8IOPS
7 SSDs, which are a small form factor storage solution for mission-critical systems in
8 various industries; ATA PC cards for equipment requiring standard form factors and
9 moderate capacities, such as data recorders, avionics systems, and telecommunication
10 applications; CompactFlash products that provide interoperability with systems based
11 on the PC Card ATA standard by using passive adapter; flash modules; secure digital
12 memory cards; USB flash drive; and single chip drives. The Company also offers
13 DRAM products, which include dual in-line memory modules (“DIMMs”), small-
14 outline DIMMs, mini-registered DIMMs (mini-RDIMMs), very low profile RDIMMs,
15 and fully-buffered DIMMs or FB-DIMMs for computing, communications, and
16 industrial applications. In addition, the Company provides integrated circuit tower
17 stacked components for thin small outline package and ball grid array (“BGA”)
18 semiconductor packages for use on memory modules and within high capacity flash
19 products; postage stamp BGA stacked components; DRAM modules with stacked
20 components for use primarily in high-performance servers, workstations, switches and
21 routers, and other custom systems; and flash products with stacked components for
22 embedded systems. STEC sells its products through a direct sales force,
23 manufacturers, representatives, and OEM distributors in the United States and
24 internationally. The Company was founded in 1990 and is headquartered in Santa
25 Ana, California.

26 **CLASS ACTION ALLEGATIONS**

27 19. Plaintiff brings this action as a class action pursuant to Rule 23 of the
28 Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise

1 acquired STEC common stock during the Class Period (the “Class”). Excluded from
2 the Class are defendants.

3 20. The members of the Class are so numerous that joinder of all members is
4 impracticable. The disposition of their claims in a class action will provide substantial
5 benefits to the parties and the Court. STEC has nearly 50 million shares of stock
6 outstanding, owned by hundreds if not thousands of persons.

7 21. There is a well-defined community of interest in the questions of law and
8 fact involved in this case. Questions of law and fact common to the members of the
9 Class which predominate over questions which may affect individual Class members
10 include:

- 11 (a) whether the 1934 Act was violated by defendants;
- 12 (b) whether defendants omitted and/or misrepresented material facts;
- 13 (c) whether defendants’ statements omitted material facts necessary to
14 make the statements made, in light of the circumstances under which they were made,
15 not misleading;
- 16 (d) whether defendants knew or deliberately disregarded that their
17 statements were false and misleading;
- 18 (e) whether the price of STEC common stock was artificially inflated;
- 19 and
- 20 (f) the extent of damage sustained by Class members and the
21 appropriate measure of damages.

22 22. Plaintiff’s claims are typical of those of the Class because plaintiff and
23 the Class sustained damages from defendants’ wrongful conduct.

24 23. Plaintiff will adequately protect the interests of the Class and has retained
25 counsel who are experienced in class action securities litigation. Plaintiff has no
26 interests which conflict with those of the Class.

27 24. A class action is superior to other available methods for the fair and
28 efficient adjudication of this controversy.

1 **DEFENDANTS' FALSE AND MISLEADING STATEMENTS**
2 **ISSUED DURING THE CLASS PERIOD**

3 25. On June 16, 2009, STEC issued a press release entitled "STEC Increases
4 Its Guidance for the Second Quarter of 2009," which stated in part:

5 STEC, Inc. today announced that based on the Company's preliminary
6 review of its anticipated financial performance, it is increasing its
7 guidance for the second quarter of 2009.

8 The Company expects to report Non-GAAP diluted earnings per
9 share in the range of \$0.32 to \$0.36, versus the previous guidance of
10 \$0.20 to \$0.22 per diluted share announced on May 11, 2009.

11 The Company also expects to report revenue in the range of \$82
12 million to \$84 million, versus the previous estimate of \$68 million to \$70
13 million.

14 The increased Non-GAAP diluted earnings per share and revenue
15 guidance are primarily the result of increases in the Company's
16 ZeusIOPS sales which now are estimated to exceed \$55 million during
17 the second quarter of 2009.

18 The Company had previously estimated revenue from ZeusIOPS
19 SSDs to surpass \$65 million during the first half of 2009. With this
20 increase in revenue, the Company now expects ZeusIOPS SSD sales to
21 exceed \$80 million during the first half of 2009.

22 26. On July 16, 2009, STEC issued a press release entitled "STEC Signs a
23 \$120 Million Supply Agreement for ZeusIOPS SSDs for 2H 2009 and Now Forecasts
24 Sales of ZeusIOPS SSDs to Exceed \$220 Million in 2009 – STEC and Its Major
25 Enterprise Storage Customers Continue Collaboration to Drive Adoption of SSD
26 Technology Into High-Performance Enterprise Storage Systems," which stated in part:

27 STEC, Inc. announced today that it has signed an agreement with one of
28 its largest enterprise storage customers for sales of \$120 million of

1 ZeusIOPS SSDs in the second half of 2009. STEC believes that this
2 agreement reflects the enterprise storage manufacturer's continued
3 commitment to integrate STEC's SSD technology into the
4 manufacturer's systems and validates significant storage system
5 performance improvements enabled by STEC's ZeusIOPS SSDs in these
6 enterprise systems. With this agreement signed, STEC now forecasts
7 revenue from the sale of its ZeusIOPS drives will exceed \$220 million in
8 2009.

9 "We are pleased to see that sales of our customer's enterprise
10 storage systems utilizing our ZeusIOPS drives have grown significantly
11 over the past few years," said Manouch Moshayedi, Chairman and Chief
12 Executive Officer of STEC. "Our customers have helped evangelize this
13 technology and we are glad to be partnered with them as we expect that
14 they will help drive further innovation in SSD usage in the highest-end
15 of the enterprise storage markets."

16 The STEC ZeusIOPS SSD product family offers a comprehensive
17 array of options for enterprise system architects. ZeusIOPS SSD
18 provides a wide range of interface options, spanning Fibre Channel to
19 SAS to SATA, as well as the widest range of capacity options, spanning
20 73GB to 1TB. Fundamental to the ZeusIOPS product family is the
21 proprietary SSD architecture which renders an enterprise-optimized
22 storage device with an unprecedented combination of performance and
23 energy efficiency.

24 27. On August 3, 2009, STEC announced its second quarter 2009 financial
25 results, in a release which stated in part:

26 STEC, Inc. announced today its financial results for the second quarter
27 ended June 30, 2009. Revenue for the second quarter of 2009 was \$86.4
28 million, an increase of 53.7% from \$56.2 million for the second quarter

1 of 2008, and an increase of 35.9% from \$63.5 million for the first quarter
2 of 2009. Shipments of our ZeusIOPS Solid-State drives (“SSD”) into the
3 Enterprise-Storage market grew to \$57.7 million for the second quarter
4 of 2009, an increase of approximately 375% from \$12.1 million for the
5 second quarter of 2008, and an increase of approximately 125% from
6 \$25.7 million for the first quarter of 2009.

7 GAAP gross profit margin was 50.0% for the second quarter of
8 2009, compared to 32.3% for the second quarter of 2008 and 36.3% for
9 the first quarter of 2009. GAAP diluted earnings per share from
10 continuing operations was \$0.38 for the second quarter of 2009,
11 compared to \$0.03 for the second quarter of 2008, and \$0.07 for the first
12 quarter of 2009.

13 * * *

14 Additional highlights for the second quarter of 2009 include:

- 15 * signed a recently-announced \$120 million contract to
16 supply ZeusIOPS SSDs to a major Enterprise-Storage
17 customer for the second half of 2009;
- 18 * signed a \$28 million, 12-month contract to supply the
19 ruggedized MACH8 SSD to a leading defense systems
20 contractor, extending reach of one our key product lines
21 beyond the traditional storage market;
- 22 * accelerated adoption of the ZeusIOPS SSDs into major
23 Enterprise-Storage and Enterprise-Server OEM customers,
24 including IBM, Fujitsu, Compellent and HP;
- 25 * increased cash and cash equivalents, and short-term
26 investments at the end of the second quarter of 2009 to
27 approximately \$94 million, a 49% increase from the end of
28 the prior quarter;

- 1 * decreased inventory to approximately \$38 million at the end
- 2 of the second quarter of 2009, a 16% decrease from the end
- 3 of the prior quarter; and
- 4 * successfully transitioned 100% of the Company's
- 5 manufacturing from California to Malaysia.

6 Business Outlook

7 "It is exciting to share such outstanding results today and to

8 deliver significant revenue, gross profit margin and EPS growth for the

9 second quarter of 2009," said Manouch Moshayedi, STEC's Chairman

10 and Chief Executive Officer. "We have shown a significant improvement

11 in our already strong balance sheet – particularly in the generation of

12 cash and effective management of inventory – added four more major

13 Enterprise-Storage OEMs to our blue chip customer list, and surpassed

14 our stated year-end 2009 non-GAAP gross profit margin goal of 40%,

15 expanding it to 50% in the second quarter of 2009.

16 "In our prior quarter's earnings announcement we had estimated

17 that ZeusIOPS revenue for the first half of 2009 would surpass \$53

18 million. I am pleased to report that we have actually achieved \$83

19 million in ZeusIOPS revenue for this period. Although we are still early

20 in the process of the adoption of SSDs into the Enterprise-Storage

21 market, I believe that the \$120 million supply agreement that we signed

22 for the second half of 2009 is a further indication of future SSD growth

23 and customers' acceptance of SSDs into this growing market. I am very

24 excited about our product road map – specific to the Enterprise-Storage,

25 Enterprise-Server and related markets."

26 28. Additionally, on August 3, 2009, STEC announced a secondary offering

27 of an aggregate of 7.5 million shares of common stock by selling shareholders and

28 officers of STEC, Manouch Moshayedi and Mark Moshayedi, giving underwriters an

1 option to purchase 1.125 million additional shares from the selling shareholders,
2 solely to cover any over allotments. The proceeds from the sales by the selling
3 shareholders stated that STEC would not receive any of the proceeds from the sales in
4 this offering. On that day, STEC filed a Registration Statement signed by defendants
5 Manouch Moshayedi, Mark Moshayedi and Cook. The Registration Statement
6 incorporated by reference the subsequently filed Prospectus.

7 29. After releasing its second quarter 2009 financial results on August 3,
8 2009, STEC hosted a conference call for analysts, investors and media representatives
9 during which defendants represented the following:

10 [COOK:] We are very pleased to report our second quarter of 2009
11 net revenues of \$86.4 million surpassing [our] revised guidance of \$82
12 million to \$84 million, and up 36% over the first quarter of 2009.
13 Revenue from our signature ZeusIOPS SSDs was \$57.7 million and up
14 nearly 125% over the first quarter of 2009 revenue of \$25.7 million.

15 * * *

16 Turning now to our guidance for the third quarter of calendar year
17 2009, we expect our revenues to be in the range of \$95 million to \$97
18 million with diluted non-GAAP earnings per share in the range of \$0.45
19 to \$0.47.

20 * * *

21 [MANOUCH MOSHAYEDI:] We think that . . . , on a go forward
22 basis, our margins will remain in the 50 to 60% area. As you know, *we*
23 *have no competition at this stage*. In addition to that, the current hard
24 drive manufacturers in the enterprise area are still making upwards of
25 40% margin in that business. So we feel that even going forward, if we
26 have competition in the area of enterprise, with moving to Malaysia,
27 with combination of changing our FGPA's to ASIC next year, and also
28 the capacity that we've built in Malaysia and being able to build all of

1 these – streamline all of the buildings of the SSDs, I think we will be
2 able to maintain about 50% margin for ZeusIOPS. And as ZeusIOPS
3 grows to be the biggest part of our sales, I think we’ll maintain the same
4 type margins.

5 * * *

6 [ANALYST:] And just along those lines, if you look at your biggest
7 customer, 39%, in the 10-Q filing for Q2, and that’s coming from 20%
8 Q1, if you assume the biggest customer is driving basically all the
9 ZeusIOPS, in terms of ZeusIOPS revenue that would be roughly 49% of
10 ZeusIOPS revenue in Q1 and 58% in Q2. What happens to this
11 percentage associated with this biggest customer in terms of ZeusIOPS
12 as you go into the second half. I got to assume with more customers and
13 newer customers that you gain in the first half starting to hit volume
14 production in the second half that really this percentage for this biggest
15 customer as a percentage of the total ZeusIOPS business [h]as to start
16 coming back down a little bit. Would that be right?

17 [MANOUCH MOSHAYEDI:] Exactly, Gary. Just to be clear, I
18 think on the ZeusIOPS side, the other four customers that we have in this
19 area, they have to come up and do the marketing and sales that the first
20 customer is doing to get up to those sort of volumes. But going forward,
21 I can’t predict exactly if it is going to be next quarter or the quarter after,
22 everybody is working extremely hard in getting SSDs, on top of their
23 enterprise storage devices, they’re trying to devise new systems, SSD
24 based only, so I think this is a very good indication of what could happen
25 to our revenues and profits going forward once the other four customers
26 start hitting their marks also.

27 * * *

1 [ANALYST:] Quick question on EMC, your largest customer. They
2 made a comment about, on their earnings call about shipping close to a
3 petabyte [or] actually over a petabyte of Flash related storage year to
4 date. And that conference call took place three weeks into the month of
5 July. Obviously there's been a fairly steep ramp, particularly in light of,
6 if we're guessing correctly, to that large supply contract you signed for
7 second half of the year involved, but how much of -- if we're thinking
8 about that petabyte shift, was July a fairly big month for you guys in
9 terms of shipments so far? Just want to get my hands around the
10 steepness of the ramp going into the second half of the year.

11 [MANOUCH MOSHAYEDI:] We think that ZeusIOPS sales
12 from Q to Q is going to go up about \$10 million from Q2 to Q3. So the
13 ramp is right now about 20% rate on a quarterly basis. That's basically
14 based on one customer in production, four customers are still in pre
15 production type of stage. So I think we will start seeing a ramp on a few
16 things. One of our customers is in the middle of discussions in terms of
17 M&A discussions. I think once that gets resolved, the customer will kick
18 back in and start buying at its original rate. The other three customers are
19 very large, and it takes them a little longer to get all the parts right. So I
20 think once they start kicking in, we will see huge ramps in sales of
21 ZeusIOPS going forward. I don't know if it's going to be next quarter,
22 the quarter after, but it it will come sooner or later.

23 * * *

24 [ANALYST:] If I'm looking at the time math right, with the 39% of
25 revenue that you got from your largest customer, be it maybe EMC,
26 we'll assume, and what you're guiding, I guess still reiterating the 220 in
27 terms of Zeus revenue for the full year, it seems to me that you're -- are
28 you being relatively pretty conservative with regard to the ramp to the

1 other customer opportunities, which I think last quarter you said would
2 reach into full production in Q3?

3 [MANOUCH MOSHAYEDI:] Yes, so I think other customers are
4 taking a little bit longer than expected in terms of full production.
5 They're introducing the systems into the market. It looks like everybody
6 is going through the same trials and tribulations that our first customer
7 went through in terms of sales and marketing side. So, It's still a, I would
8 say, maybe a quarter or two away from full ramping production.

9 30. On August 3, 2009, STEC filed its quarterly report on Form 10-Q for the
10 second quarter 2009, which was signed by defendants Manouch Moshayedi and Cook
11 and represented that:

12 A major area of our Flash-based product investment has been
13 focused on SSD technology. We believe the advantages of SSD
14 technology are currently being defined in several distinct market
15 segments; a) enterprise-storage applications, b) enterprise-server
16 applications, c) military and industrial applications, d) PC mobile
17 computing and consumer-related markets and e) video-on-demand
18 ("VoD") applications. We see opportunities to leverage our SSD
19 expertise across each of these markets where we believe our technology
20 can outperform existing solutions. In addition, we believe the SSD
21 market will continue to expand over the next few years as overall unit
22 volume growth is expected, aided by the decline in Flash component
23 pricing, which will serve to improve the comparative economics of
24 Flash-based SSDs versus HDDs in both new and existing storage
25 applications. We expect continued growth in the sales of our Flash-based
26 SSD ZeusIOPS products through 2009 based on the accelerated adoption
27 of our ZeusIOPS SSDs by most of our major enterprise-storage and
28 enterprise-server OEM customers into their systems. As part of this

1 expected growth, on July 16, 2009 we announced an agreement with one
2 of our largest enterprise storage customers for sales of \$120 million of
3 ZeusIOPS SSDs in the second half of 2009.

4 31. On or about August 11, 2009, defendants Manouch Moshayedi and Mark
5 Moshayedi sold 9 million shares of STEC common stock at \$31 per share for net
6 proceeds of \$267.8 million. The Company filed a prospectus for the offering on
7 August 7, 2009, which was incorporated into the Registration Statement filed on
8 August 3, 2009. The Prospectus included the following representations that it would
9 be difficult for competitors to catch up with STEC:

10 We believe that we are a technology leader in solid-state storage
11 due to our nearly 20 years of focus on advanced memory solutions.
12 Throughout our history, we have delivered advanced memory and
13 storage solutions to a wide range of customers in various market
14 segments, and we continue to develop products to meet the need of
15 enterprises to constantly improve the retention of, and access to, critical
16 data at high performance levels.

17 **Our solutions**

18 The key features of our products include:

- 19 * *Proprietary controller IC technology.* In order to be first-
20 to-market with innovative storage technologies, we design
21 the fundamental logic for our SSD products. The
22 controllers within our various SSD products are the key to
23 enabling high levels of performance and reliability.
- 24 * *High degree of customization.* Products sold to our
25 customers are typically customized by our design and
26 engineering teams to meet our customers' specific design
27 requirements.

1 33. In fact, during August and September 2009, key STEC customers had
2 been working closely with Toshiba on qualification, which would have a significant
3 adverse effect on STEC's future results. This development was not disclosed to STEC
4 investors.

5 34. On September 16, 2009, STEC's stock closed at \$37.90 per share.

6 35. On September 17, 2009, WedBush Morgan published its analyst report
7 on STEC, identifying important adverse information it had obtained, not from the
8 Company, but through its own independent research, stating in part:

- 9 • **Our industry checks indicate that one of STEC's Tier I**
10 **OEM enterprise customers is in final qualification**
11 **stages with Toshiba for its Single Level Cell (SLC)**
12 **NAND-based serial attached SCSI (SAS) interface SSD.**

13 While we had expected STEC's competitors to gain design
14 wins at its OEMs, we believed this would likely not occur
15 until 1H:10E.

- 16 • **Industry checks lead us to believe a leading Hard Disk**
17 **Drive (HDD) OEM is likely set to introduce a SLC**
18 **SATA/SAS SSD and possibly a Multi-Level-Cell (MLC)**
19 **SSD drive in Q4.**

20 36. As a result of this report, STEC's stock collapsed \$6.37 per share to close
21 at \$31.53 per share on September 17, 2009 – a one-day decline of over 16%, on
22 volume of more than 21.2 million shares.

23 37. Then, on November 3, 2009, after the market closed, STEC reported its
24 third quarter 2009 results, and outlined the Company's fourth quarter 2009 outlook, in
25 a release which stated in part:

26 Business Outlook

27 "I am very pleased to share with you, our exceptional results for
28 the third quarter of 2009," said Manouch Moshayedi, STEC's Chairman

1 and Chief Executive Officer. “Our solid operating results, the
2 strengthening of our balance sheet and the further integration of our
3 SSDs into our customers’ platforms leave us in a great position to
4 address the growth opportunities and challenges that lie ahead. Despite a
5 sluggish economy, we believe our growth through the end of the year
6 will continue.”

7 “One of our customers entered into a \$120 million supply
8 agreement with us for shipments covering the second half of 2009. We
9 recently received preliminary indications that our customer might carry
10 inventory of our ZeusIOPS at the end of 2009 which they will use in
11 2010. In light of this development, we have jointly initiated a strategic
12 sales and marketing incentive program designed to promote the
13 integration of STEC’s SSDs into their systems. As of September 30,
14 2009, we have accrued \$1.5 million of estimated costs for this marketing
15 incentive program. Both companies believe that we will be successful in
16 increasing the pace of the replacement of HDDs with SSDs. If our
17 marketing program is not successful in increasing the demand flow of
18 SSDs, our first quarter of 2010 orders from this customer will be
19 negatively affected; however, the actual impact cannot be quantified at
20 this time.

21 “We are also working on implementing sales and marketing
22 incentive programs at our other major customers to further proliferate the
23 use of our SSDs in their systems. We believe that it is just a matter of
24 time before these customers become more significant to our overall sales
25 of SSDs. In addition, we continue to qualify our ZeusIOPS into new
26 platforms at our customers and are working closely with them to
27 promote integration of SSDs into their systems by participating in sales
28 conferences and end-user training programs both in the U.S. and in

1 Europe. We believe these activities will help accelerate the adoption of
2 our SSDs over the course of 2010.

3 “Longer-term, we believe that SSDs in the Enterprise market are
4 here to stay and will grow to become a very significant market within the
5 next five years. Further, we believe that as this market grows, there will
6 be room for a few additional players and that STEC will remain the
7 dominant player in Enterprise-class SSDs.”

8 Guidance

9 “We currently expect fourth quarter of 2009 revenue to range from
10 \$101 million to \$103 million (net of \$2.4 million of estimated reserves
11 related to sales and marketing incentive programs) with diluted non-
12 GAAP earnings per share to range from \$0.51 to \$0.53.”

13 38. On this news, shares of STEC stock plunged \$9.01 per share to close at
14 \$14.14 per share on November 4, 2009, a one-day decline of 39% on volume of 31.9
15 million.

16 39. The true facts, which were known by the defendants but concealed from
17 the investing public during the Class Period, were as follows:

18 (a) STEC’s larger customers were increasingly able to secure SSD
19 from STEC’s competitors, such that STEC did not have the competitive advantages
20 represented;

21 (b) STEC’s competitors’ design process was much further along than
22 represented;

23 (c) Enterprise end users were slow to adopt SSD technology over
24 traditional HDD technology; and

25 (d) STEC’s future margins were not as secure as suggested by
26 defendants as its competitors’ offerings were showing signs of cutting into STEC’s
27 prior advantage, with the probable result being lower prices and margins.

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1 high. This drop removed the inflation from STEC's stock price, causing real
2 economic loss to investors who had purchased the stock during the Class Period.

3 **COUNT I**

4 **For Violation of §10(b) of the 1934 Act and Rule 10b-5**
5 **Against All Defendants**

6 48. Plaintiff incorporates ¶¶1-47 by reference.

7 49. During the Class Period, defendants disseminated or approved the false
8 statements specified above, which they knew or deliberately disregarded were
9 misleading in that they contained misrepresentations and failed to disclose material
10 facts necessary in order to make the statements made, in light of the circumstances
11 under which they were made, not misleading.

12 50. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

13 (a) employed devices, schemes and artifices to defraud;

14 (b) made untrue statements of material facts or omitted to state
15 material facts necessary in order to make the statements made, in light of the
16 circumstances under which they were made, not misleading; or

17 (c) engaged in acts, practices and a course of business that operated as
18 a fraud or deceit upon plaintiff and others similarly situated in connection with their
19 purchases of STEC common stock during the Class Period.

20 51. Plaintiff and the Class have suffered damages in that, in reliance on the
21 integrity of the market, they paid artificially inflated prices for STEC common stock.
22 Plaintiff and the Class would not have purchased STEC common stock at the prices
23 they paid, or at all, if they had been aware that the market prices had been artificially
24 and falsely inflated by defendants' misleading statements.

25 **COUNT II**

26 **For Violation of §20(a) of the 1934 Act**
27 **Against All Defendants**

28 52. Plaintiff incorporates ¶¶1-51 by reference.

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