

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

-----X
_____ Individually and on
Behalf of All Others Similarly Situated,

Plaintiff,

vs.

STEC, INC. and MANOUCH MOSHAYEDI,

Defendants.
-----X

No.

CLASS ACTION COMPLAINT FOR
VIOLATIONS OF FEDERAL
SECURITIES LAWS

DEMAND FOR JURY TRIAL

Plaintiff alleges the following Complaint based on information and belief and upon the investigation of counsel, including a review of United States Securities and Exchange Commission (“SEC”) filings by STEC, Inc. (“STEC” or the “Company”), securities analysts’ reports and advisories, press releases, quarterly conference calls, public statements, and various media reports. Matters relating to Plaintiff and his own acts are alleged upon personal knowledge. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action on behalf of purchasers of the common stock and other publicly-traded securities of STEC between November 4, 2009 and February 23, 2010, inclusive (the “Class Period”), seeking remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 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 pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act.

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. Plaintiff, as set forth in the accompanying certification incorporated by reference herein, purchased the common stock of STEC during the Class Period and has been damaged as a result of the acts alleged herein.

7. Defendant STEC is a global provider of Solid State technologies tailored to meet the needs of original equipment manufacturers, with its headquarters located in Santa Ana, California.

8. Defendant Manouch Moshayedi (“Moshayedi”) is a co-founder of STEC and, at all relevant times, was the Chairman and Chief Executive Officer of the Company.

9. During the Class Period, Moshayedi was privy to confidential and proprietary information concerning STEC, its operations, finances, financial condition and present and future business prospects.

10. Moshayedi is liable as a direct participant in the wrongs complained of herein. In addition, Moshayedi, by reason of his status as a senior executive officer and board member, was a “controlling person” within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of his position of control, he was able to and did, directly or indirectly, control the conduct of STEC’s business.

11. As a senior executive officer, board member and a controlling person of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the NASDAQ National Market (“NASDAQ”) and governed by the federal securities laws, Moshayedi had a duty to disseminate accurate and truthful information with respect to STEC’s financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, so that the market price of STEC’s common stock would be based upon truthful and accurate information. Moshayedi’s misrepresentations and omissions during the Class Period violated these specific requirements and obligations and caused Plaintiff and members of the Class

(defined below) to purchase STEC's common stock at artificially inflated prices, and to suffer losses proximately caused by the unlawful acts alleged herein.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

12. 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 common stock of STEC between November 4, 2009 and February 23, 2010, inclusive. (the "Class"). Excluded from the Class are Defendants, 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.

13. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, STEC common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained 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 STEC 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.

14. 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 complained of herein.

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

16. 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 the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented or omitted material facts about the business and operations of STEC;

(c) whether the price of STEC common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

17. 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.

SUBSTANTIVE ALLEGATIONS

18. Defendant STEC describes itself as:

[A] leading global provider of Solid State technologies and solutions tailored to meet the high-performance, high reliability needs of original equipment manufacturers (OEMs) . . . STEC leverages nearly two decades of Solid State knowledge and experience to deliver the industry's most comprehensive line of Solid State Drives (“SSDs”).

19. STEC markets its products to OEMs and OEM distributors. The Company relies substantially on a few key clients, the largest of which is EMC Corporation (“EMC”). In 2009, EMC accounted for 45.1% of its total revenues, a figure which rose to 62% for the fourth quarter of 2009.

20. The Class Period begins on November 4, 2009. On that date, STEC represented through Moshayedi in a conference call (the “Conference Call”) that EMC’s excessive inventory of STEC’s SSD products was affecting STEC’s sales, but that this problem could be ameliorated by energizing sales force efforts and increasing sales force and consumer education about SSDs. He said:

EMC is very much in line with our thought process that SSD is extremely important in the enterprise storage markets. So are the rest of the customers. *It's just a matter of training and doing enough marketing to get the sales departments of everybody on board.*

21. In the Conference Call, Moshayedi also described a system STEC recently implemented with EMC that would purportedly solve the inventory problem:

We -- just starting yesterday, we implemented a new marketing fund with our customer, and everyone thinks, including our customer, thinks that this is going to be extremely successful. And it will push through any sort of inventory issues and it will, in the future quarters, will pick up any sort of sales that they might have in this product line.

So it's an extensive product marketing program that they've put in place that I'm very, very excited about, in fact.

* * *

We were notified about, I would say, seven, eight days ago about the fact that there was this inventory. We put our heads together, came up with them, MDF [marketing development fund] program.

One of the great things about [EMC] is that they can act very fast and very decisively. We proposed the MDF program to them about five or six days ago. They liked it. They talked about it and they implemented it yesterday.

So, it's been just about a week since we've been notified, and based on my latest meetings with them, everyone is extremely excited about it, and they think that it's going to be a huge success.

22. Despite Moshayedi's representations in the Conference Call, the problem in SSD sales was not a lack of sales force efforts or consumer knowledge about SSDs, but consumer resistance to purchasing the ultimate product due to its cost, performance, and flexibility of use. Although EMC and STEC had exerted their best efforts to sell this technology to end users, by the beginning of the Class Period it had become evident to STEC that the market they thought existed for this type of device simply was materially smaller than initially believed. In truth and in fact, the sophisticated end user customers were well-versed in the features of STEC's SSD product, and were holding off on adopting this technology pending additional functionality and cost improvements.

23. Moshayedi's executive position in the Company and the Company's relationship with EMC made him privy to the actual circumstances that led to EMC's extraordinary excess inventory of SSD products. He knew that the problem affecting the sales of the ultimate products was consumer resistance to the products due to their cost, performance and flexibility of use, rather than a lack of sales force efforts or consumer knowledge about SSDs. He also knew that the MDF program he emphasized in the Conference Call could in no way resolve the problem.

24. On February 23, 2010, STEC stated in a press release issued after the close of market trading that inventory overhang had not been significantly dented by the MDF Program, and would eviscerate sales in the first half of 2010:

[T]he first half of 2010 will be a trough period for our business due to an inventory carryover by our largest customer [EMC] . . . [B]ased on our best estimates we now anticipate [the EMC] inventory carryover to continue to negatively impact our sales to this customer *during the first half of 2010, as we do not expect any meaningful production orders from this customer during that time.*

25. The Company also announced it expected fiscal first quarter sales in the range of \$33 million to \$35 million. This figure is about half the revenue analysts predicted STEC would earn and contrasts sharply with the \$63.5 million in revenues it earned in the first quarter of 2009, and the \$106 million reported for the fourth quarter of 2009.

26. As a result of this surprise announcement, STEC shares dropped over 23% in trading on February 24, 2010, a decline of \$3.15 on extraordinary trading volume of over 36 million shares.

Allegations of Scienter

27. As alleged herein, Defendants acted with scienter in that Moshayedi knew that the statements he made in the Conference Call were materially false and misleading.

Loss Causation/Economic Loss

28. When the expected first quarter revenues were disclosed on February 23, 2010 and the essential failure of the MDF Program to move inventory became apparent to the market, STEC shares plummeted. At this juncture, the market realized that it was not sales force incentives or education that was needed, but rather that the product simply did not fit end users' needs and did not provide efficient and reliable performance sufficient

to justify the high price tag. As discussed in the fourth quarter conference call held on that day, future iterations of the product, now on the drawing board, might better address the market's needs. Plaintiff and the other Class members suffered economic loss, i.e., damages, under the federal securities laws when the truth was realized.

29. The timing and magnitude of the price decline in STEC common 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 Defendants' fraudulent conduct. The economic loss, i.e., damages, suffered by Plaintiff and the other Class members was a direct result of Moshayedi's scheme to artificially inflate the price of STEC common stock and the subsequent significant decline in the value of STEC common stock when the unexpected adverse facts were revealed.

**Applicability of Presumption of Reliance
Fraud on the Market Doctrine**

30. At all relevant times, the market for STEC's common stock was an efficient market for the following reasons, among others:

(a) STEC common stock met the requirements for listing, and was listed and actively traded on the NASDAQ Global Select system, a highly efficient and automated market;

(b) as a regulated issuer, STEC filed periodic public reports with the SEC and the NASDAQ;

(c) STEC regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging

public disclosures, such as communications with the financial press and other similar reporting services; and

(d) STEC was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms.

31. As a result of the foregoing, the market for STEC common stock promptly digested current information regarding STEC from all publicly available sources and reflected such information in the prices of the stock. Under these circumstances, all purchasers of STEC common stock during the Class Period suffered similar injuries through their purchases of STEC common stock at artificially inflated prices and a presumption of reliance applies.

No Safe Harbor

32. 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 Complaint. To the extent there were any forward-looking statements, 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. Alternatively, to the extent that the statutory safe harbor does 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 were made, the particular speaker knew that the particular forward-looking statement was false.

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

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

34. During the Class Period, Defendants (a) disseminated the materially false and misleading statements specified above, which they knew were materially false and misleading; and (b) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

35. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for STEC common stock, and such prices declined when the truth was later realized. Plaintiff and the Class would not have purchased STEC common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

36. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of STEC common stock during the Class Period.

COUNT II
**(Violation of Section 20(a) of
the Exchange Act Against Defendant Moshayed)**

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

38. Moshayedi acted as a controlling person of STEC within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of his position as officer and board member of STEC, he had the power and authority to cause STEC to engage in the wrongful conduct complained of herein. By reason of such conduct, he is liable pursuant to Section 20(a) of the Exchange Act.

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

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and appointing Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: