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SAN MATEO COUNTY

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Clerk of the Superior Court

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SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN MATEO

Case No. **CIV 530291**

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██████████ Individually and on Behalf of All
Others Similarly Situated,

CLASS ACTION

Plaintiff,

COMPLAINT FOR VIOLATIONS OF THE
SECURITIES ACT OF 1933

vs.

MODEL N, INC.,
ZACK RINAT,
SUJAN JAIN,
JAMES W. BREYER,
SARAH FRIAR,
MARK GARRETT,
CHARLES J. ROBEL,
J.P. MORGAN SECURITIES LLC,
DEUTSCHE BANK SECURITIES INC ,
STIFEL, NICOLAUS & COMPANY,
INCORPORATED,
PACIFIC CREST SECURITIES LLC,
PIPER JAFFRAY & CO ,
RAYMOND JAMES & ASSOCIATES, INC.
and DOES 1-25, inclusive,

Defendants.

DEMAND FOR JURY TRIAL

1 Plaintiff [REDACTED] or “Plaintiff”) alleges the
2 following based upon the investigation of Plaintiff’s counsel, which included a review of United States
3 Securities and Exchange Commission (“SEC”) filings by Model N, Inc. (“Model N” or the
4 “Company”), as well as regulatory filings and reports, securities analysts’ reports and advisories about
5 the Company, press releases and other public statements issued by the Company, and media reports
6 about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the
7 allegations set forth herein after a reasonable opportunity for discovery.

8 NATURE OF THE ACTION

9 1. This is a securities class action on behalf of all purchasers of the common stock of Model
10 N pursuant and/or traceable to the Registration Statement and Prospectus issued in connection with
11 Model N’s March 20, 2013 initial public stock offering (the “IPO”), seeking to pursue remedies under
12 the Securities Act of 1933 (the “Securities Act”).

13 2. Pursuant to the Securities Act, defendants are strictly liable for the material
14 misstatements in the Prospectus (as defined herein) issued in connection with the IPO, and the claims
15 herein specifically exclude any allegations of knowledge or scienter. The claims in this action are based
16 solely on strict liability and negligence, and are not based on any reckless or intentionally fraudulent
17 conduct by or on behalf of defendants – *i e*, they do not allege, arise from, or sound in, fraud. Plaintiff
18 specifically disclaims any allegation of fraud, scienter, or recklessness in these non-fraud claims

19 JURISDICTION AND VENUE

20 3. This Court has subject matter jurisdiction over the causes of action asserted herein
21 pursuant to the California Constitution, Article VI, §10, because this case is a cause not given by statute
22 to other trial courts. This action is not removable. The claims alleged herein arise under §§11, 12(a)(2)
23 and 15 of the Securities Act, 15 U.S.C. §§77k, 77l(a)(2) and 77o. Jurisdiction is conferred by §22 of
24 the Securities Act and venue is proper pursuant to §22 of the Securities Act. Section 22 of the
25 Securities Act explicitly states that “[e]xcept as provided in section 16(c), no case arising under this title
26 and brought in any State court of competent jurisdiction shall be removed to any court in the United
27 States ” Section 16(c) refers to “covered class actions,” which are defined as lawsuits brought as class
28 actions or brought on behalf of more than 50 persons asserting claims under state or common law. This

1 7 Defendant Model N is a software company founded in 1999 whose primary focus is
2 revenue management software for pharmaceutical and medical device companies. Following the IPO,
3 Model N stock has traded on the New York Stock Exchange under the ticker symbol "MODN."

4 8. Defendant Zack Rinat is the Company's founder and was at the time of the IPO its Chief
5 Executive Officer, a director and Chairman of Model N's Board of Directors. Defendant Rinat resides
6 in Santa Clara County, California.

7 9. Defendant Sujan Jain ("Jain") was, at the time of the IPO, a Senior Vice President and
8 the Chief Financial Officer ("CFO") of Model N. Defendant Jain suddenly resigned in May 2014 and
9 Model N brought back its former CFO to replace defendant Jain. Defendant Jain resides in Santa Clara
10 County, California

11 10. Defendant James W. Breyer ("Breyer") was at the time of the IPO a director of Model N
12 Defendant Breyer resigned from the Model N Board following the IPO on May 2, 2013. Defendant
13 Breyer is also a co-founder of Accel-KKR Company LLC, a pre-IPO venture capital financier of Model
14 N which is referred to herein as the "Selling Stockholder." Defendant Breyer resides in San Mateo
15 County, California.

16 11. Defendant Sarah Friar is, and was at the time of the IPO, a director of Model N
17 Defendant Friar resides in Marin County, California.

18 12. Defendant Mark Garrett is, and was at the time of the IPO, a director of Model N.
19 Defendant Garrett resides in Santa Clara County, California.

20 13. Defendant Charles J. Robel is, and was at the time of the IPO, a director of Model N.
21 Defendant Robel resides in San Mateo County, California

22 14. The defendants named in ¶¶8-13 are referred to herein as the "Individual Defendants."
23 The Individual Defendants each signed the Registration Statement.

24 15 Defendant J.P. Morgan Securities LLC is a financial services company that acted as an
25 underwriter and a joint book-running manager of Model N's IPO, helping to draft and disseminate the
26 offering documents.

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1 16. Defendant Deutsche Bank Securities Inc , an indirect wholly owned subsidiary of
2 Deutsche Bank AG, is a financial services company that acted as an underwriter and a joint book-
3 running manager of Model N's IPO, helping to draft and disseminate the offering documents.

4 17. Defendant Stifel, Nicolaus & Company, Incorporated is a financial services company
5 that acted as an underwriter of Model N's IPO, helping to draft and disseminate the offering documents.

6 18. Defendant Pacific Crest Securities LLC, based in Portland, Oregon, is a financial
7 services company that acted as an underwriter of Model N's IPO, helping to draft and disseminate the
8 offering documents.

9 19. Defendant Piper Jaffray & Co. is a financial services company that acted as an
10 underwriter of Model N's IPO, helping to draft and disseminate the offering documents.

11 20. Defendant Raymond James & Associates, Inc. is a financial services company that acted
12 as an underwriter of Model N's IPO, helping to draft and disseminate the offering documents.

13 21. The defendants named in ¶¶15-20 are referred to herein as the "Underwriter
14 Defendants." Pursuant to the Securities Act, the Underwriter Defendants are liable for the false and
15 misleading statements in the Registration Statement as follows:

16 (a) The Underwriter Defendants are investment banking houses that specialize, *inter*
17 *alia*, in underwriting public offerings of securities. They served as the underwriters of the IPO and
18 shared more than \$8.4 million in fees collectively. The Underwriter Defendants determined that in
19 return for their share of the IPO proceeds, they were willing to merchandize Model N stock in the IPO.
20 The Underwriter Defendants arranged a multi-city roadshow prior to the IPO during which they, and
21 representatives from Model N, met with potential investors and presented highly favorable information
22 about the Company, its operation, and its financial prospects.

23 (b) The Underwriter Defendants also demanded and obtained an agreement from
24 Model N that Model N would indemnify and hold the Underwriter Defendants harmless from any
25 liability under the federal securities laws. They also made certain that Model N had purchased millions
26 of dollars in directors' and officers' liability insurance.

27 (c) Representatives of the Underwriter Defendants also assisted Model N and the
28 Individual Defendants in planning the IPO, and purportedly conducted an adequate and reasonable

1 investigation into the business and operations of Model N, an undertaking known as a “due diligence”
2 investigation. The due diligence investigation was required of the Underwriter Defendants in order to
3 engage in the IPO. During the course of their “due diligence,” the Underwriter Defendants had
4 continual access to confidential corporate information concerning Model N’s operations and financial
5 prospects.

6 (d) In addition to availing themselves of virtually unbridled access to internal
7 corporate documents, agents of the Underwriter Defendants met with Model N’s lawyers, management
8 and top executives and engaged in “drafting sessions” between at least December 2012 and March
9 2013. During these sessions, understandings were reached as to: (i) the strategy to best accomplish the
10 IPO, (ii) the terms of the IPO, including the price at which Model N stock would be sold; (iii) the
11 language to be used in the Registration Statement; (iv) what disclosures about Model N would be made
12 in the Registration Statement; and (v) what responses would be made to the SEC in connection with its
13 review of the Registration Statement. As a result of those constant contacts and communications
14 between the Underwriter Defendants’ representatives and Model N’s management and top executives,
15 the Underwriter Defendants knew of, or in the exercise of reasonable care should have known of, Model
16 N’s existing problems as detailed herein.

17 (e) The Underwriter Defendants caused the Registration Statement to be filed with
18 the SEC and declared effective in connection with the offers and sales of securities registered thereby,
19 including those to Plaintiff and the other members of the Class.

20 22. The true names and capacities of defendants sued herein under California Code of Civil
21 Procedure §474 as Does 1 through 25, inclusive, are presently not known to plaintiff, who therefore
22 sues these defendants by such fictitious names. Plaintiff will seek to amend this Complaint and include
23 these Doe defendants’ true names and capacities when they are ascertained. Each of the fictitiously
24 named defendants is responsible in some manner for the conduct alleged herein and for the injuries
25 suffered by the Class.

26 SUBSTANTIVE ALLEGATIONS

27 23 Defendant Model N is a Revenue Management solutions provider to the life science and
28 technology industries. Revenue Management is an emerging enterprise application category that

1 purports to help companies to align and improve the processes of pricing and quoting, contract
2 development and management, trade settlements and channel incentives, in order to eliminate the
3 revenue leakage and reduce the financial regulatory compliance risk that can cost companies millions
4 per year. According to Model N, Revenue Management has become a core, strategic focus for
5 companies from industries that deal with competitive pricing, complex contracts, and multiple channels.

6 24. Though it competes against better capitalized firms like Oracle Corporation and
7 HealthStream, Inc., Model N purports to offer a unique approach, optimized for life sciences and
8 technology companies, that combines industry specific solutions and best practices expertise to enable
9 their customers to better plan and control the processes that drive the entire revenue life cycle for their
10 business.

11 25. On December 11, 2012, Model N filed with the SEC a confidential draft Registration
12 Statement on Form S-1, which would later be utilized for the IPO following several amendments in
13 response to various rounds of comments by the SEC and being filed with the SEC publicly on February
14 13, 2013. On March 19, 2013, the SEC declared the Registration Statement effective. On or about
15 March 20, 2013, Model N and the Underwriter Defendants priced the IPO and filed the final Prospectus
16 for the IPO, which forms part of the Registration Statement (collectively, the "Registration Statement")

17 26 The Registration Statement was negligently prepared and, as a result, contained untrue
18 statements of material facts and/or omitted to state facts necessary to make the statements made not
19 misleading and was not prepared in accordance with the rules and regulations governing its preparation.
20 Specifically, at the time of the IPO, Model N was then experiencing a disruption in its sales force which
21 was negatively impacting the Company's ability to close sales and causing significant sales execution
22 issues. Given the Company's extended sales cycle for its products, the Company's sales execution
23 issues were highly likely to impact the Company's continuing operations, as the Company lost sales
24 opportunities or sales were delayed, and, therefore, these issues were required to be disclosed in the
25 Registration Statement but were not.

26 27. The Registration Statement positively described the Company's sales force
27 competencies, stating in pertinent part as follows:

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1 We primarily target large and mid-sized organizations worldwide through our
 2 marketing team and direct sales force. We assist our customers with the configuration
 3 and implementation of our solutions. We have also established non-exclusive
 4 relationships with system integrators and consultants that promote our solutions through
 5 business referral activities such as joint prospective customer planning and marketing at
 6 industry events. These relationships also help to increase the number of skilled
 7 resources trained and qualified to assist with the implementation of our solutions. A
 8 representative list of our customers based on our total revenues for the fiscal year ended
 9 September 30, 2012 includes our life science customers Abbott Laboratories, Amgen
 10 Inc., Boston Scientific Corporation, Bristol-Meyers Squibb Company, Johnson &
 11 Johnson and Merck & Co., Inc., and our technology customers Dell Inc., Nokia
 12 Corporation, STMicroelectronics N.V. and VMware, Inc.

13 * * *

14 We augment our sales professionals with solutions, engineers and industry domain
 15 experts who work closely with prospective customers during the sales process. Our
 16 marketing team supports sales with demand generation, competitive analysis and sales
 17 tools, and contributes to the sales process through lead generation, brand building,
 18 industry analyst relations, press relations and industry research.

19 Our sales and marketing efforts are tailored to communicate effectively to senior
 20 executives in our target industries. We believe our industry expertise enables a better
 21 understanding of our customers' unique needs, including the specialized business
 22 requirements of industry segments, such as pharmaceutical, biotechnology, medical
 23 device, semiconductor, consumer electronics and software. As a result, we believe we
 24 are able to engage our customers during the sales process using quantitative and
 25 qualitative benchmarks built on a combination of comparative data from our customers
 26 and from surveys of these industries.

27 We host an annual user conference, Rainmaker, which plays a significant role in
 28 driving sales for our solutions. Customers are invited both as attendees and participants
 to deliver sessions relevant to the interests and practices of the life science and
 technology industries. We also invite potential customers to this conference in order to
 leverage our *strong customer references* to accelerate sales cycles. In addition,
 Rainmaker provides a forum to build our eco-system of strategic partner relationships,
 offering partners the opportunity to work closely with our sales force on joint sales
 pursuits.

29 28. The Registration Statement described the Company's then-present "competitive
 30 strengths" and the demand then being experienced for Model N's Revenue Management services,
 31 stating in pertinent part as follows:

32 *We believe [life science and technology] companies are seeking innovative solutions
 33 to increase revenues and reduce missed revenue opportunities, or revenue leakage, as
 34 the opportunity to capture lost revenues has a significant business impact for life
 35 science and technology companies*

36 * * *

37 **Our Competitive Strengths**

38 We believe our key competitive strengths include:

- 1 • **Comprehensive approach to revenue management.** Our integrated, end-to-
2 end application suites enable our customers to transform their revenue
3 management processes from disjointed operations into a cohesive strategic end-
4 to-end process for decision making and process automation.
- 5 • **Deep domain knowledge.** Our expertise in the revenue management needs of
6 life science and technology companies enables us to develop solutions that
7 address the unique demands of these industries.
- 8 • **Strong installed customer base.** We have established a reputation for
9 delivering revenue management solutions to leading life science and technology
10 customers. We believe that the use of our products by respected industry
11 leaders also increases the value of our brand in these industries.
- 12 • **Flexible delivery options.** Our modern, web-based platform supports both on-
13 premise and cloud deployments. By offering both delivery options, we are able
14 to reach a larger group of customers, address their unique needs and deliver cost
15 and operational benefits.
- 16 • **Talented team focused on customer success.** We employ experts from the life
17 science and technology industries in key customer-facing and development
18 roles, resulting in close relationships with our customers and a strong reference
19 base for new sales opportunities.

20 * * *

21 *We have enjoyed renewal rates for maintenance and support in excess of 95%*
22 *during fiscal years ended September 30, 2010, 2011 and 2012.*

23 29. The Registration Statement purported to warn investors about the extended sales cycle
24 for the Company's products without disclosing that at the time of the IPO the Company was then
25 experiencing sales execution issues that threatened to further impede and delay the sales process. The
26 Registration Statement stated in pertinent part as follows:

27 Our sales efforts are targeted at larger enterprise customers, and as a result, we
28 face greater costs, must devote greater sales support to individual customers, have
longer sales cycles and have less predictability in completing some of our sales. Also,
sales to large enterprises often require us to provide greater levels of education
regarding the use and benefits of our solutions. We believe that our customers view the
purchase of our solutions as a significant and strategic decision. As a result, customers
carefully evaluate our solutions, often over long periods with a variety of internal
constituencies. In addition, the sales of our solutions may be subject to delays if the
customer has lengthy internal budgeting, approval and evaluation processes, which are
quite common in the context of introducing large enterprise-wide technology solutions.
As a result it is difficult to predict the timing of our future sales.

30 Similarly the Registration Statement purported to warn investors about the importance of
the Company's direct sales force, but failed to disclose the sales execution issues then facing the
Company. The Registration Statement stated in pertinent part as follows:

1 We rely almost exclusively on our direct sales force to sell our solutions. We
2 believe that our future growth will depend, to a significant extent, on the continued
3 development of our direct sales force and its ability to manage and retain our existing
4 customer base, expand the sales of our solutions to existing customers and obtain new
5 customers. Because our software is complex and often must interoperate with complex
6 computing requirements, it can take longer for our sales personnel to become fully
7 productive compared to other software companies. Our ability to achieve significant
8 growth in revenues in the future will depend, in large part, on our success in recruiting,
9 training and retaining a sufficient number of direct sales personnel. New hires require
10 significant training and may, in some cases, take more than a year before becoming fully
11 productive, if at all. If we are unable to hire and develop sufficient numbers of
12 productive direct sales personnel, and if these sales personnel are unable to achieve full
13 productivity, sales of our solutions will suffer and our growth will be impeded.

14 31 The statements referenced above in ¶¶27-30 were each inaccurate statements of material
15 fact because they failed to disclose that the Company was then experiencing a disruption in its sales
16 force which was negatively impacting the Company's ability to close sales and causing significant sales
17 execution issues.

18 32. Under the rules and regulations governing the preparation of the Registration Statement,
19 Model N was required to disclose at the time of the IPO that it was then experiencing sales execution
20 issues which were highly likely to impact continuing operations. The Registration Statement, however,
21 contained no such disclosures.

22 33. Pursuant to Item 303 of Regulation S-K (17 C F.R. §229.303), and the SEC's related
23 interpretive releases thereto, issuers are required to disclose events or uncertainties that have had or are
24 reasonably likely to cause the registrant's financial information not to be indicative of future operating
25 results, including any known trends. At the time of the IPO, Model N was experiencing significant
26 sales execution issues. Given the Company's extended sales cycle for its products, the Company's sales
27 execution issues were highly likely to impact the Company's continuing operations, as the Company
28 lost sales opportunities or sales were delayed, and, therefore, these issues were required to be disclosed
in the Registration Statement but were not.

 34 The IPO was successful for the Company, the Selling Stockholder and the Underwriter
Defendants, who collectively sold 7.751 million shares of Model N common stock to the public at
\$15.50 per share, raising more than \$108 million in gross proceeds for the Company (\$101 million, net
of underwriting discounts and commissions) and \$11.47 million in gross proceeds for the Selling
Stockholder (\$10.667 million, net of underwriting discounts and commissions).

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

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

8 **FIRST CAUSE OF ACTION**

9 **For Violation of §11 of the Securities Act
Against All Defendants**

10 42. Plaintiff incorporates ¶¶1-41 by reference.

11 43. This Cause of Action is brought pursuant to §11 of the Securities Act, 15 U.S.C. §77k,
12 on behalf of the Class, against all defendants.

13 44. The Registration Statement for the IPO was inaccurate and misleading, contained untrue
14 statements of material facts, omitted to state other facts necessary to make the statements made not
15 misleading, and omitted to state material facts required to be stated therein.

16 45. Defendants are strictly liable to Plaintiff and the Class for the misstatements and
17 omissions.

18 46. None of the defendants named herein made a reasonable investigation or possessed
19 reasonable grounds for the belief that the statements contained in the Registration Statement were true
20 and without omissions of any material facts and were not misleading.

21 47. By reason of the conduct herein alleged, each defendant violated, and/or controlled a
22 person who violated, §11 of the Securities Act.

23 48. Plaintiff acquired Model N common stock pursuant to the IPO.

24 49. Plaintiff and the Class have sustained damages. The value of Model N common stock
25 has declined substantially subsequent to and due to defendants' violations.

26 50. At the time of their purchases of Model N common stock, Plaintiff and other members of
27 the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and
28

1 could not have reasonably discovered those facts prior to the disclosures herein. Less than one year has
2 elapsed from the time that Plaintiff discovered or reasonably could have discovered the facts upon
3 which this Complaint is based to the time that Plaintiff commenced this action. Less than three years
4 has elapsed between the time that the securities upon which this Cause of Action is brought were
5 offered to the public and the time Plaintiff commenced this action.

6 **SECOND CAUSE OF ACTION**

7 **For Violation of §12(a)(2) of the Securities Act**
8 **Against All Defendants**

9 51. Plaintiff incorporates ¶¶1-50 by reference

10 52. By means of the defective Prospectus, defendants promoted and sold Model N stock to
11 Plaintiff and other members of the Class.

12 53. The Prospectus contained untrue statements of material fact, and concealed and failed to
13 disclose material facts, as detailed above. Defendants owed Plaintiff and the other members of the
14 Class who purchased Model N common stock pursuant to the Prospectus the duty to make a reasonable
15 and diligent investigation of the statements contained in the Prospectus to ensure that such statements
16 were true and that there was no omission to state a material fact required to be stated in order to make
17 the statements contained therein not misleading. Defendants, in the exercise of reasonable care, should
18 have known of the misstatements and omissions contained in the Prospectus as set forth above.

19 54. Plaintiff did not know, nor in the exercise of reasonable diligence could have known, of
20 the untruths and omissions contained in the Prospectus at the time that Plymouth County acquired
21 Model N common stock.

22 55. By reason of the conduct alleged herein, defendants violated §12(a)(2) of the Securities
23 Act. As a direct and proximate result of such violations, Plaintiff and the other members of the Class
24 who purchased Model N common stock pursuant to the Prospectus sustained substantial damages in
25 connection with their purchases of the stock. Accordingly, Plaintiff and the other members of the Class
26 who hold the common stock issued pursuant to the Prospectus have the right to rescind and recover the
27 consideration paid for their shares, and hereby tender their common stock to defendants sued herein.
28 Class members who have sold their common stock seek damages to the extent permitted by law.

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THIRD CAUSE OF ACTION

**For Violation of §15 of the Securities Act
Against Model N and the Individual Defendants**

56. Plaintiff incorporates ¶¶1-55 by reference.

57. This Cause of Action is brought pursuant to §15 of the Securities Act against the Company and the Individual Defendants.

58. The Individual Defendants each were control persons of Model N by virtue of their positions as directors and/or senior officers of Model N. The Individual Defendants each had a series of direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major shareholders of Model N. The Company controlled the Individual Defendants and all of Model N's employees.

59. The Individual Defendants were each culpable participants in the violations of §11 of the Securities Act alleged in the First Cause of Action above, based on their having signed or authorized the signing of the Registration Statement and having otherwise participated in the process which allowed the IPO to be successfully completed.

PRAYER FOR RELIEF

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

A. Determining that this action is a proper class action, certifying Plaintiff as a Class representative under California Code of Civil Procedure §382 and Rule 3 764 of the California Rules of Court and appointing Plaintiff's counsel Class 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,

D. Awarding rescission or a rescissory measure of damages, and

E. Such equitable/injunctive or other relief as deemed appropriate by the Court

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JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: September 5, 2014

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