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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

IN RE SNAP INC. SECURITIES
LITIGATION

Case No. 2:17-cv-03679-SVW-AGR

CLASS ACTION

**SECOND CONSOLIDATED
AMENDED CLASS ACTION
COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

JURY TRIAL DEMANDED

This Document Relates to: All Actions.

Judge: Hon. Stephen V. Wilson

TABLE OF CONTENTS

1

2 I. INTRODUCTION 1

3 II. JURISDICTION AND VENUE 8

4 III. PARTIES TO PLAINTIFFS’ CLAIMS UNDER THE EXCHANGE

5 ACT 8

6 A. Lead Plaintiffs 8

7 B. Exchange Act Defendants 9

8 1. Snap Inc. 9

9 2. Executive Defendants 9

10 IV. RELEVANT NON-PARTIES TO PLAINTIFFS’ CLAIMS 10

11 V. VIOLATIONS OF THE EXCHANGE ACT 12

12 A. Snap’s Journey from Novelty to Multi-Billion Dollar IPO 12

13 1. Venture Capital Firms Bankroll Snap’s Rise to Prominence 12

14 2. The Importance of User Engagement Metrics 14

15 3. Snap’s Culture of Secrecy 15

16 4. Snap’s Rapid Growth is Marred by Allegations of Unreliable User

17 Metrics 17

18 5. Facebook Releases A Competing Product Six Months Before the

19 IPO Which, Undisclosed to Snap’s Investors, Has an Immediate

20 and Dramatic Impact on Snap’s Growth 20

21 6. Faced with Declining User Growth and Engagement, Snap Rushes

22 to Go Public 25

23 B. Snap’s IPO 26

24 1. The Registration Statement Falsely Touts Snapchat’s Rapid

25 Growth and Conceals the Known Impact Instagram’s Stories had

26 on Snap’s User Growth and Engagement 27

27

28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2. The Registration Statement Conceals Credible Allegations that Snap’s User Metrics were Unreliable..... 31

3. Snap’s Roadshow: The Underwriters Help Cement the Company’s False Growth Narrative 34

4. As Snap Goes Public, Defendants and Other Insiders Cash Out, and the Underwriters Reap Hefty Commissions 36

5. The Underwriter Banks Initiate Coverage with Price Targets Well Above the IPO Price 37

VI. THE TRUTH IS GRADUALLY REVEALED..... 39

A. Pompliano Blows the Whistle on Snap’s Allegedly Unreliable User Engagement Metrics 39

B. Snap Denies All of Pompliano’s Allegations Prior to the IPO..... 45

C. After the IPO, New Details About Pompliano’s Allegations Emerge ... 45

D. 1Q 2017 Results 48

E. The Exchange Act Defendants Attempt to Prop Up Snap’s Declining Stock Price With Additional False and Misleading Statements 49

F. Third-Party Data Suggests that the Exchange Act Defendants’ False Assurances are Untrue 53

G. Morgan Stanley Downgrades Snap’s Stock 53

H. 2Q 2017 Results 54

I. Post-Class Period Developments 57

VII. ADDITIONAL ALLEGATIONS OF SCIENTER 59

VIII. EXCHANGE ACT DEFENDANTS’ MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS OF MATERIAL FACT 63

A. Snap’s Registration Statement 63

1	1.	The Registration Statement Contained Materially False and Misleading Statements Regarding Snap’s User Growth and Engagement	63
2			
3	2.	The Registration Statement Contained Materially False and Misleading Statements about Snap’s Restatement of its DAU Numbers and the Risk of Inaccurate User Metrics.....	68
4			
5	3.	The Registration Statement Failed to Disclose Pompliano’s Allegations that Snap’s User Metrics were Unreliable, a Material Omission and Violation of ASC 450.....	70
6			
7			
8	B.	May 10, 2017 Conference Call	72
9			
10	C.	May 24, 2017 J.P.Morgan Conference	74
11	IX.	LOSS CAUSATION.....	76
12	X.	PRESUMPTION OF RELIANCE.....	83
13	XI.	INAPPLICABILITY OF THE STATUTORY SAFE HARBOR OR BESPEAKS CAUTION DOCTRINE	85
14			
15	XII.	CAUSES OF ACTION UNDER THE EXCHANGE ACT	86
16	A.	COUNT I: For Violation of §10(b) of the Exchange Act and Rule 10b-5 Against the Exchange Act Defendants	86
17			
18	B.	COUNT II: For Violation of §20(a) of the Exchange Act Against the Executive Defendants	87
19			
20	XIII.	VIOLATIONS OF THE SECURITIES ACT.....	88
21	A.	Securities Act Parties	89
22			
23	1.	Additional Plaintiffs	89
24	2.	Securities Act Defendants	89
25	B.	Factual Background	89
26	1.	Snap’s IPO	89
27	2.	The Securities Act Defendants Rushed to Bring Snap to Market In the Face of Rapidly Growing Competition from Facebook....	90
28			

1	3.	The Securities Act Defendants Conceal Pompliano’s Credible Allegations that Snap’s User Metrics were Unreliable	92
2			
3	4.	The Underwriters Reap Enormous Profits in Snap’s IPO.....	92
4	5.	As Information Concealed in the Registration Statement Is Gradually Disclosed, the True Value of Snap Common Stock Is Revealed	93
5			
6			
7	C.	The Registration Statement Contained Untrue Statements of Material Fact and Material Omissions in Violation of Section 11 of the Securities Act.....	95
8			
9	1.	Failure to Disclose the Impact of Instagram “Stories” on Snap’s DAU.....	95
10			
11	2.	Failure to Disclose the Fact of and Nature of Allegations in the Pompliano Complaint.....	100
12			
13	D.	The Registration Statement Failed to Disclose Information Required to be Disclosed under SEC Regulations	102
14			
15	1.	Item 503	102
16	2.	Item 303	103
17	3.	ASC 450.....	105
18	XIV.	CAUSES OF ACTION UNDER THE SECURITIES ACT	106
19			
20	A.	COUNT III: For Violation of §11 of the Securities Act Against the Securities Act Defendants.....	106
21	B.	COUNT V: For Violation of §15 of the Securities Act Against the Executive Defendants	108
22			
23	XV.	CLASS ACTION ALLEGATIONS APPLICABLE TO ALL CLAIMS.....	108
24			
25	XVI.	PRAYER FOR RELIEF	110
26	XVII.	JURY DEMAND	111
27			
28			

1 2. The IPO was underwritten by some of Wall Street’s most prominent and
2 largest investment banks, including Morgan Stanley and Goldman Sachs, who served
3 as co-leads. In an unprecedented move, fueled by Snap’s demands for secrecy, other
4 members of the underwriting syndicate, a who’s who of Wall Street banks, including
5 J.P.Morgan, Deutsche Bank, Barclays Capital, Credit Suisse and Allen & Company,
6 dispensed with even receiving a draft of the Registration Statement until after it was
7 published. Road show presentations which began on February 17, 2017 amplified
8 Snap’s representations about its user growth and engagement, and reliability of its user
9 metrics.

10 3. The IPO raised \$3.4 billion from public investors, of which \$544 million
11 went directly to the pockets of Snap’s founders, Defendants Evan Spiegel and Robert
12 Murphy. Another \$200 million went to other insiders who sold their shares in the
13 offering. The syndicate of underwriters, led by Morgan Stanley and Goldman Sachs,
14 collectively made approximately \$85 million in fees, and millions more from sales of
15 shares held back in the offering.

16 4. Following the IPO, Snap’s stock price soared to a Class Period high of
17 \$29.44 on the day after the IPO. As analysts initiated coverage of Snap’s fledgling
18 stock, the investment banks who underwrote the IPO issued price targets well above
19 the IPO price. Morgan Stanley initiated coverage of Snap on March 28, 2017 at
20 “overweight”—industry jargon for a recommendation to “buy”—with a one year price
21 target of \$28. For a time, based on the Defendants’ market representations, it seemed
22 Snap was on track to become the next social media giant.

23 5. However, investors were in for a rude awakening as the Registration
24 Statement and statements made by Snap’s management after the IPO, concealed
25 material information concerning Snap’s actual risks. Many of Snap’s core
26 representations in the Registration Statement would be revealed to be materially
27 misleading.

1 6. At its core, the Registration Statement made numerous statements
2 concerning Snap’s continuing growth and user engagement as this was the central
3 growth and value premise that Snap and its underwriters were touting to the market.
4 Numerous graphs depicted continuous quarter-over-quarter growth through the end of
5 2016. Although Snap’s user growth in the fourth quarter of 2016 had been “relatively
6 flat” according to the Registration Statement, this was to be expected as Snap’s user
7 growth was “lumpy,” and had to viewed in context with “the accelerated growth in
8 user engagement earlier in the year.” Snap omitted user data metrics for the two
9 months preceding the IPO.

10 7. In fact, what was actually going on with Snap’s user metrics and which
11 was abundantly clear to Snap’s management before the IPO, was that Snap’s principal
12 competitor Facebook had successfully mimicked Snapchat’s most popular features
13 through its own Instagram “Stories” function and, by the time of the IPO, had eclipsed
14 Snap’s Daily Active Users (“DAU”), the principal metric on which Snap touted as
15 fundamental to its valuation.

16 8. Facebook’s Instagram Stories function represented an existential threat to
17 Snap and prior to the IPO, as former employees interviewed by Plaintiffs disclosed,
18 there was widespread concern expressed by Snap’s sales force to senior management
19 that advertisers were skeptical of Snap’s continued value proposition given Instagram’s
20 growth. Indeed, by the time of Snap’s IPO, even though Instagram’s Stories had been
21 launched barely six months earlier, it had eclipsed Snap’s user base and was on a
22 trajectory to vastly outnumber Snap’s users within months. Facebook’s competition
23 was the focus of a company-wide meeting held in January 2017 wherein an extensive
24 Q&A session, Snap’s senior management fielded numerous questions from Snap’s
25 beleaguered sales team about Instagram’s competition. The extremely adverse and
26 highly negative trend to Snap’s user growth and engagement caused by Instagram was
27 not disclosed in the Registration Statement and this omission rendered the Company’s
28

1 statements about user growth and engagement and the potential impact of competition
2 from other products materially false and misleading.

3 9. As would be revealed shortly after the IPO, Facebook was eviscerating
4 Snap's user growth and Snap's growth had effectively stalled. This revelation would
5 come only after another bombshell involving a Snap whistleblower.

6 10. On April 4, 2017, it was reported that a former Snapchat employee and
7 whistleblower, Anthony Pompliano, had moved to unseal a previously filed complaint
8 against the Company. The report revealed that according to newly-released details
9 about the complaint, the whistleblower alleged that Snapchat had misrepresented
10 details about the popularity of its application to investors in the IPO. In response to
11 this news, Snap's share price fell approximately 7.3%.

12 11. Pompliano had been recruited from Facebook in September 2015 to help
13 lead Snap's user growth. Upon joining the Company, he immediately set about
14 evaluating Snap's user metrics and their reporting and, according to the allegations in
15 his complaint, found egregious deficiencies in the controls over Snap's reporting of
16 user metrics. His analysis revealed that Snap's 2015 metrics were overstated and he
17 brought this to senior management's attention. He was then, reportedly, swiftly
18 terminated and after his departure, Snap's senior management began to discredit him
19 in the industry. Pompliano filed a lawsuit against Snap in January 2017 in California
20 state court which was heavily redacted and largely under seal. Although the lawsuit
21 was reported in the press, Snap emphatically dismissed the lawsuit as that of "a
22 disgruntled employee fired for poor performance" and whose claims "were without
23 merit."

24 12. An investor reviewing the Registration Statement would never have
25 known the existence of the Pompliano suit as it was not disclosed in the section of the
26 Registration Statement described "Pending Matters" even though that section
27 enumerated lawsuits against Snap that had been dismissed and were no longer pending.

1 And an investor trying to understand Snap’s risk disclosures, including the disclosure
2 that “*real or perceived inaccuracies* in [Snap’s user] metrics may seriously harm and
3 negatively affect our reputation and our business,” could never have understood that
4 risk to have already manifested in a filed whistleblower complaint by Pompliano which
5 both challenged the reliability of Snap’s reported metrics but also claimed credit for
6 requiring the restatement of Snap’s 2015 user metrics.

7 13. Although silent about the Pompliano lawsuit, the Registration Statement
8 disclosed that it had restated Snap’s 2015 user growth data. As it would be later
9 revealed, once Pompliano’s lawsuit was unsealed after the IPO in April 2017, the need
10 to restate the 2015 metrics was among the numerous deficiencies that Pompliano had
11 brought to Snap’s attention. The revelation that Pompliano’s allegations were
12 grounded in fact, and not just the allegations of a former disgruntled employee, shocked
13 investors. As one market commentator noted, “for investors, though whether or not
14 Snap exaggerated the user number matters less at this point than the fact that
15 Pompliano’s lower number turned out to be right.”

16 14. Following on the heels of this revelation, the true impact of Instagram on
17 Snap’s growth began to be revealed to investors. On May 10, 2017, Snap reported its
18 first quarterly results as a public company, disclosing only modest growth in the key
19 performance metric, DAU, which it had touted as being vital to its success in its
20 Registration Statement. In response to this news, Snap’s stock dropped approximately
21 21% in a single day. Market commentators uniformly attributed Snap’s slowing user
22 growth to direct competition from Instagram. As one commentator wrote, “Compared
23 to early 2016, this growth rate sucks, and the change correlates with the rise of
24 Instagram Stories.”

25 15. Despite its disappointing first quarter, as the truth about Instagram’s true
26 impact on Snap was being revealed and Pompliano’s allegations had become public,
27 Defendants sought to reassure investors about Snap’s prospects by emphasizing the

1 quality of Snap’s user engagement despite the quantity of those users being severely
2 impacted by Instagram. In doing so, Defendant Spiegel and Defendant Khan
3 specifically claimed that Snap’s user engagement was more organic than its
4 competitors because it did not employ “growth hacking”—efforts to artificially boost
5 user engagement metrics by driving traffic to the application through excessive user
6 notifications—to drive user growth.

7 16. The powerful Wall Street banks that had helped take Snap public similarly
8 reiterated their rosy assessments for the Company’s future growth, muting the voices
9 of those who noted that without the rapid growth in user engagement promised in the
10 Registration Statement, Snap’s ability to monetize its platform and achieve
11 profitability was impossible. Indeed, Morgan Stanley continued to rate Snap as
12 “overweight” with a \$28 price target.

13 17. Based on the Company’s false assurances, Snap’s stock continued to trade
14 above the offering price. However, the truth about Snap began to be revealed on June
15 7, 2017, when it was reported that based on data from SensorTower, a firm that tracks
16 app analytics, worldwide downloads of Snapchat for the months of April and May 2017
17 were down 22% from the year prior, confirming that the image of Snap as a rapidly-
18 growing, soon-to-be profitable business presented in the Registration Statement was
19 just a mirage. On this news, Snap’s share price fell approximately 7.4%.

20 18. Based in part on this new, independent data calling into question Snap’s
21 prior representations to the market, on July 11, 2017, in a stunning announcement,
22 Morgan Stanley, the lead underwriter for Snap’s IPO abruptly downgraded the stock
23 and lowered its price target from \$28 to \$16, *below* the offering price. In support of
24 this sudden reversal, Morgan Stanley cited in part the recent data showing slowing
25 growth in new downloads of Snapchat. On this news, Snap’s share price fell an
26 additional 8.9%.

1 19. By the time Snap announced its second quarter results on August 10,
2 2017, Snap’s stock was trading at only \$13.77. When the Company announced that
3 yet again, growth in key user engagement metrics had been stagnant, it was clear that
4 the trend that had been concealed by Snap in the Registration Statement—Facebook’s
5 eclipsing Snap’s DAU and snapping up its advertisers—had fully materialized. Snap
6 was not going to be the social media powerhouse investors had been led to believe it
7 would be. Moreover, in a complete reversal of Snap’s claim that its user engagement
8 metrics reflected organic growth, an analyst on the earnings call queried whether Snap
9 was “growth hacking” notwithstanding Defendant Spiegel and Defendant Kahn’s
10 explicit statements that Snap did not engage in such practices. This time, in an about
11 face, Spiegel confessed that push notifications, i.e. growth hacking “it’s important for
12 our business.”

13 20. Snap’s share price fell an additional 14% on this news. This time,
14 however, analysts got the message, with one analyst noting that it was “skeptical of
15 Snap’s longevity, as the company lacks meaningful innovation in the face of significant
16 competitive pressure.”

17 21. As it now has become clear, Snap’s IPO was a race to capitalize on the
18 market’s misconception that Snap was a viable and growing company before the truth
19 about the actual threat Instagram posed became known. The only winners were the
20 insiders who personally sold tens of millions of shares to unsuspecting investors and
21 the underwriters who reaped immense fees.

22 22. As set forth in more detail herein, Plaintiffs bring this securities class
23 action on behalf of Plaintiffs and all purchasers of Snap common stock between March
24 2, 2017 and August 10, 2017, inclusive (the “Class Period”), including those who
25 purchased Snap common stock traceable to the registration statement and prospectus
26 incorporated therein, issued in connection with the Company’s March 3, 2017 IPO
27 Registration Statement. This action asserts violations of the Securities Act of 1933

1 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”),
2 as well as SEC Rule 10b-5 promulgated thereunder.

3 **II. JURISDICTION AND VENUE**

4 23. The claims asserted herein arise under §11 and §15 of the 1933 Act (15
5 U.S.C. §77k and §77o) and §10(b) and §20(a) of the Exchange Act (15 U.S.C. §78j(b)
6 and §78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

7 24. Jurisdiction is conferred by 28 U.S.C. §1331 and §22 of the Securities Act
8 and §27 of the Exchange Act.

9 25. Venue is proper in this District pursuant to 28 U.S.C. §1391(b) and §22
10 of the Securities Act as certain of the Defendants reside, are headquartered, and/or
11 maintain operations, in this District. Defendants’ wrongful acts also arose in and
12 emanated from, in part, this District, including the dissemination of materially
13 misleading statements into this District and the purchase of the Company’s common
14 stock by members of the Class (defined herein) who reside in this District.

15 26. In connection with the acts, transactions, and conduct alleged in this
16 Complaint, Defendants directly and indirectly used the means and instrumentalities of
17 interstate commerce, including the United States mail, interstate telephone
18 communications, and the facilities of a national securities exchange.

19 **III. PARTIES TO PLAINTIFFS’ CLAIMS UNDER THE EXCHANGE ACT**

20 **A. Lead Plaintiffs**

21 27. Lead Plaintiffs are five investors: Smilka Melgoza, as trustee of the
22 Smilka Melgoza Trust U/A DTD 04/08/2014, Rediet Tilahun, Tony Ray Nelson,
23 Rickey E. Butler, and Alan L. Dukes. They purchased Snap common stock pursuant
24 and/or traceable to the March 2, 2017 IPO, as described in the certifications attached
25 hereto as Exhibit A and were damaged thereby.
26

1 investment banker. Throughout the Class Period, Khan made statements in Company
2 releases, conference calls, and other public forums as alleged herein.

3 33. The Defendants referenced above in ¶¶29-32 are collectively referred to
4 herein as the “Executive Defendants.”

5 34. The Executive Defendants, because of their high-ranking positions and
6 direct involvement in the everyday business of the Company, directly participated in
7 the management of the Company and had the power and authority to control the
8 contents of Snap’s reports to the SEC, press releases, and presentations to securities
9 analysts and investors. Moreover, Defendants Spiegel and Murphy held the most
10 powerful leadership roles within the Company (as CEO and then CTO, respectively),
11 throughout the entire duration of the fraud; indeed, both Spiegel and Murphy had
12 occupied central roles within the Company since they co-founded Snapchat in 2011.
13 All of the Executive Defendants were directly involved in controlling the content of,
14 and in drafting, reviewing, publishing and disseminating the false and misleading
15 statements and information alleged in this Complaint.

16 35. Together with Snap, the Executive Defendants are collectively referred to
17 as the “Exchange Act Defendants.”

18 **IV. RELEVANT NON-PARTIES TO PLAINTIFFS’ CLAIMS**

19 36. Anthony Pompliano (“Pompliano”) is a former Snap employee and
20 whistleblower who alleges that Snap misrepresented its user engagement metrics to
21 investors, the public, and advertisers. In a retaliatory discharge and whistleblower case
22 filed in California state and federal courts, he has alleged that Snap lacked a functioning
23 system of internal controls over user engagement data, that it relied on user engagement
24 data it knew to be inaccurate, and suppressed evidence calling into question the
25 integrity of its data. Pompliano is a decorated Iraqi war veteran and a leading expert
26 in the specialized field of developing and testing growth strategies for social media
27

1 internet companies. Pompliano was specifically recruited by Snap from Facebook, as
2 part of its effort to attract talented individuals who could help increase user
3 engagement. Prior to joining Snap in September 2015, Pompliano co-founded two
4 successful start-up companies, including a leading social intelligence company
5 specializing in demographic and psychometric measurement. In February 2014,
6 Pompliano was recruited to join Facebook, where he led the Growth & Engagement
7 initiatives for one of Facebook’s major business units, its “Pages” division, which is
8 the modern day social-media equivalent of the yellow pages.

9 37. Former Employee 1 (“FE 1”) is a former Regional Director of Sales and
10 Marketing who worked at Snap between mid-2015 and early-2017. FE 1 supervised a
11 team of approximately twelve employees whose job it was to pitch Snapchat to major
12 advertisers in order to sell ad space. FE 1 revealed that, from the second and third
13 quarters of 2016 until the time FE 1 left Snap in the first quarter of 2017, there was an
14 ongoing concern within Snap regarding Instagram and its effect on Snap’s ability to
15 compete for advertisers. FE 1 revealed that after Instagram launched its Stories
16 function, concerns about Instagram and Snap’s ability to compete came up in the sales
17 team’s conversations with advertisers. FE 1 revealed that these concerns were
18 expressed to Snap’s executive management, who responded in the form of an internal
19 Company memo which FE 1 explained attempted to summarily minimize the risk of
20 competition by claiming that Facebook has always been Snap’s competitor and Snap
21 had survived thus far.

22 38. Former Employee 2 (“FE 2”) is a former salesperson in Brand
23 Partnerships at Snapchat. FE 2 worked in a regional office of approximately 10
24 employees between January and June 2017. FE 2 revealed that Snap held a company-
25 wide meeting in January 2017 during which numerous employees expressed concerns
26 to Spiegel and other senior executives about competition from Facebook and the
27 impact it was having on Snap’s user growth and engagement and the ability to monetize

1 its platform. According to FE 2, Spiegel dismissed such concerns. However,
2 throughout FE 2's employment at Snap, advertisers expressed consistent concerns
3 about Snap's ability to compete with Facebook, and specifically with Instagram's
4 replication of popular Snapchat features including Stories. In the face of such
5 concerns, FE 2 revealed that Snap's internal sales projections and assumptions
6 regarding the Company's ability to grow and monetize its platform were not realistic.

7 **V. VIOLATIONS OF THE EXCHANGE ACT**

8 **A. Snap's Journey from Novelty to Multi-Billion Dollar IPO**

9 **1. Venture Capital Firms Bankroll Snap's Rise to Prominence**

10 39. Snap began in 2011 as a picture messaging application for the iPhone
11 called "Snapchat." Snapchat's primary innovation over other messaging applications
12 was that it enabled users to send disappearing messages or "Snaps" that were visible
13 for only ten seconds. This "ephemerality" made Snapchat unique in the minds of its
14 users and led to widespread adoption among younger demographics.

15 40. As Snapchat grew in popularity, Snap added additional features to the
16 application, such as video messaging, and expanded its reach to other mobile operating
17 systems, including Android. By 2013, Snap boasted of having 1 million DAU on its
18 application.

19 41. Snapchat's dramatic early growth was funded by investments from
20 venture capital firms seeking to reap astronomical returns on the next social media
21 startup. In 2012 and 2013, Snap raised over \$162 million in five rounds of fundraising.

22 42. Fueled in part by this new capital, Snap continued to add additional
23 features to Snapchat throughout 2013 and 2014 in an effort to attract new users and
24 boost engagement among users, including a "Stories" function that enabled users to
25 tell narratives using different snaps, a "Chat" function enabling users to exchange text
26

1 and video messages, and “Geofilters,” allowing users to enhance snaps with location-
2 specific artwork.

3 43. By July 2015, Snap reportedly had 100 million DAU on Snapchat.
4 Snapchat’s rapid growth coincided with an effort by Snap to monetize Snapchat’s
5 popularity through the introduction of paid advertisements, including “Brand Stories”
6 whereby advertisers created promotional snaps for display on the application.

7 44. In an effort to further grow its user base and increase revenues, Snap
8 added new features to Snapchat throughout 2015 and 2016, including augmented-
9 reality “lenses,” which are interactive animations overlaid on a person’s face or
10 background enabling the creation of whimsical self-portraits, as well as voice and video
11 calling and group chat functions. The addition of these new features propelled Snap’s
12 rising popularity. In the months leading up to its IPO, Snap reportedly had 150 million
13 DAU on Snapchat.

14 45. However, the additional functionality Snap added to Snapchat did not
15 come cheaply. In 2014, Snap raised \$485 million in a single round of fundraising.
16 Snap raised an additional \$200 million in funding in 2015, followed by a whopping
17 \$1.8 billion in 2016.

18 46. Snap’s strategy of luring new investors with the promise of exponential
19 returns once the Company went public was successful for a time. In total, Snap raised
20 approximately \$2.6 billion in funding from venture capital firms in the years leading
21 up to its IPO.

22 47. While these heavy investments appeared to be paying off, as Snap’s user
23 base grew and as its platform and products became more sophisticated, so did its
24 operating costs. As reported in the Registration Statement, Snap’s net losses in the two
25 years preceding its IPO increased from \$372.9 million in 2015 to \$514.6 million in
26 2016. Furthermore, as of December 31, 2016, Snap had an accumulated deficit of \$1.2
27 billion.

1 Our strategy is to invest in product innovation and take risks to improve
2 our camera platform. We do this in an effort to drive user engagement,
3 which we can then monetize through advertising. We use the revenue we
4 generate to fund future product innovation to grow our business.

5 54. DAU is widely viewed as one of the most important (if not the most
6 important) key performance indicator in the social media industry. It is used, among
7 other things, to measure an application's growth, rate of user retention, depth of user
8 engagement, and to help create strategies for improving such core metrics, which is
9 critical to success. Given the importance of an application's DAU and other user
10 engagement metrics, it is standard industry practice to employ sophisticated data
11 analytics methods and testing to ensure the validity of these metrics and to develop
12 intelligent strategic growth and user engagement initiatives based on analyses of the
13 numbers.

14 55. As Snap shifted its focus from attracting venture capital to marketing itself
15 to the broader investing public, the need to demonstrate its growing user engagement
16 became paramount. Snap emphasized this fact in the Registration Statement, stating
17 that "Our user metrics and other estimates are subject to inherent challenges in
18 measurement, and *real or perceived inaccuracies* in those metrics may seriously harm
19 and negatively affect our reputation and our business."¹

20 56. As a result, accurate information about the number of users and user
21 engagement was essential for potential investors in Snap to understand the Company's
22 ability to grow its revenues. However, the transparency and disclosure that came along
23 with becoming a public company contrasted sharply with Snap's culture of secrecy and
24 siloed business structure it had built around Spiegel.

25 3. Snap's Culture of Secrecy

26 57. In contrast to many tech startups, Snap has historically been a secretive
27 Company. As reflected in news reports, Company insiders describe Snap as having "a

28 ¹ Unless otherwise indicated, all emphasis is added.

1 culture of extreme secrecy” driven by Spiegel, who “reportedly communicates with his
2 executives via disappearing Snap messages.” Maya Kosoff, “Why is Snapchat Being
3 So Secretive About Its I.P.O.” *Vanity Fair* (Jan. 17, 2017). Employees described the
4 Company as “siloed,” noting that “Snap doesn’t hold the all-hands meetings typical of
5 other Silicon Valley companies to explain strategy and keep everyone abreast of news
6 at the company.” *Id.*

7 58. As recounted in one article, “Because of how he has structured the
8 organization into siloed groups that rarely interact with each other, only Spiegel, his
9 most senior executives, and a handful of close confidants have more than a small
10 picture of the company’s future roadmap.” Alex Heath, “The Cult of Evan: What life
11 is like inside Snap right now,” *Business Insider* (Aug. 1, 2017). The profile of Spiegel
12 described Snap as “an Evan Spiegel project” based on his “centralized, unfettered
13 control,” which fostered a “secretive, contrarian culture that has come to define the
14 company.”

15 59. Another article summed it up: “That’s the way things work at Snap, an
16 ultra-secretive organization where employees are unlikely to know the goals or strategy
17 of other teams. The only person who knows the full picture of the company’s next
18 steps is Spiegel, whose prickly opinions about privacy have propelled Snap’s
19 trajectory.” Sarah Frier and Alex Barinka, “Can Snapchat’s Culture of Secrecy Survive
20 an IPO?” *Bloomberg* (Jan. 17, 2017). These accounts are corroborated by many other
21 profiles of Snap and its leader. As *Business Insider* noted, rather than being governed
22 by established protocols, “The power and respect you possess within Snap is largely
23 determined by one factor: How close you can get to the sun. And the sun is Evan
24 Spiegel.” Alex Heath, “The Cult of Evan: What life is like inside Snap right now,”
25 *Business Insider* (Aug. 1, 2017).

26 60. In an October 8, 2016 profile of the Company based on “more than a
27 dozen current and former employees,” *Business Insider* reported:

1 At Snapchat, which recently renamed itself SnapInc., secrecy and
2 upheaval come with the job. Evan Spiegel, the 26-year-old cofounder and
3 CEO, moves across the company's network of Venice Beach outposts in
4 a black Range Rover, flanked by his security detail. New employee
orientations begin with a Fight Club-like list of forbidden topics of
discussion. And internal projects blossom out of nowhere — and vanish
suddenly — without explanation.

5 61. The report quoted a former Snap executive as stating that “Nothing
6 happens there without Evan [Spiegel]’s stamp of approval.”

7 62. In keeping with Snap’s culture of secrecy built around Spiegel, Snap
8 jealously guarded all details about its intended IPO. As one report detailed in January
9 2017, after details of Snap’s IPO leaked, including its reported \$25 billion valuation,
10 “the social-media giant [] enforced a virtual lockdown on company information.”

11 63. As confirmed by FE 2, Snap’s culture of secrecy extended to its user
12 engagement data. FE 2 confirmed that Snapchat user information such as rates of
13 downloads was locked away in one unit and that that Snapchat was secretive about
14 such information. According to FE 2, Snap’s sales employees were not provided
15 evidence of any third party verification of the information. The only metrics available
16 to Snap’s sales teams was that which was given to them periodically for sales purposes.
17 This general data was accessible through an internal system. There were two types of
18 data. One set was available to be distributed to those who had not signed a non-
19 disclosure agreement (“NDA”), and additional higher level data for those who had
20 signed a NDA. The types of data Snap made available to sales personnel included
21 DAU and information about user ages and locations.

22 **4. Snap’s Rapid Growth is Marred by Allegations of Unreliable**
23 **User Metrics**

24 64. Snap’s IPO, and the valuation ascribed to it, was predicated on the user
25 engagement and growth data published for the first time by Snap in the Registration
26 Statement. This is precisely the data that was exclusively within the close circle of
27 confidantes and insiders controlled by Spiegel.

1 65. Pompliano is one of very few people who was allowed into the circle of
2 people that had insight into Snap’s user metrics.

3 66. As Pompliano would later allege, in September 2015, a mere 17 months
4 before Snap filed for its IPO, Snap lacked a reliable system for measuring its critical
5 user engagement metrics, leading to overstated metrics. For example, while it is
6 standard industry practice to employ user growth and engagement teams to test key
7 user engagement metrics, Pompliano alleges that Snap failed to do so.

8 67. After being hired by Snap to develop and grow Snap’s user base and user
9 engagement, Pompliano alleges that he discovered within Snap an institutional
10 aversion to properly analyzing user engagement data. Pompliano’s analysis of Snap’s
11 user metrics, which he conducted upon his arrival at Snap in September 2015, revealed
12 that among other things, the third party platforms Snap used to measure DAU were
13 known to be inaccurate, and had been so historically. Despite these known
14 inaccuracies, Pompliano alleges that Snap overstated its DAU by relying on a DAU
15 measurement obtained from a third party provider which was known to produce
16 inflated DAU numbers. Pompliano alleges that when he brought his specific findings
17 regarding the inflation of Snap’s user metrics among other concerns to Snap’s senior
18 management, including Spiegel, he was fired and retaliated against in response. This
19 prompted Pompliano to commence a lawsuit against Snap two months prior to the IPO,
20 which was largely filed under seal.

21 68. Pompliano’s lawsuit was not identified or described in the Registration
22 Statement. Instead, in the Registration Statement, Snap disclosed that it had changed
23 the provider for its user engagement data, disclosing that “In the past [the Company]
24 relied on third-party analytics providers to calculate [its] metrics.” The Registration
25 Statement explained that “before June 2015, we used a third party that counted a Daily
26 Active User when the application was opened or a notification was received via the
27 application on any device.” According to Snap, this measurement method inflated
28

1 DAU numbers by 4.8%, necessitating a reduction in pre-June 2015 DAU numbers.
2 However, nowhere in the Registration Statement did Snap disclose that this reduction
3 in its user metrics was one of a number of issues that Pompliano had brought to the
4 Company's attention, that Snap had fired Pompliano and Pompliano had brought suit
5 against the Company for retaliation. The detailed facts alleged by Pompliano were
6 filed under seal in January 2017 and would remain under seal until April 2017, after
7 the IPO.

8 69. As Pompliano's original suit alleged, the historical inaccuracy of Snap's
9 user engagement data was not limited to DAU, and extended beyond the 4.8% inflation
10 of DAU numbers disclosed in the Registration Statement. For example, Pompliano
11 alleged that Snap was also misrepresenting the rate of DAU growth in the 4th quarter
12 of 2015. Rather than experiencing double-digit month-over-month DAU growth as
13 Snap claimed, Pompliano alleged that his investigation revealed that Snap's DAU
14 growth rate actually ranged from 1% to 4% per quarter. Furthermore, Pompliano
15 alleged that Snap had falsely represented to advertisers, investors, and others that it had
16 achieved 100 million DAU on Snapchat when, at the time, it had yet to achieve this
17 important user growth milestone.

18 70. Moreover, Pompliano alleged that his investigation into Snap's historical
19 user data revealed a systemic failure of Snap's internal controls over user engagement
20 data that led Snap to inaccurately report other metrics, including Snapchat's
21 registration flow completion rate (the percentage of users who complete the Snapchat
22 registration process after starting it) and user retention rate (the percentage of users
23 who continue to use the application after 7 days). With respect to both of these metrics,
24 Pompliano alleged that Snap's management was grossly overstating the adoption rate
25 of its product among new users. For example, whereas Snap represented that 87% of
26 potential users completed the registration process, Pompliano alleged that the data
27 showed that the number was actually less than 40%. Furthermore, whereas Snap

1 represented that it was losing around 60% of its users after 7 days, the data showed that
2 its retention rate was actually closer to 20%.

3 71. According to Pompliano, the alleged unreliability of Snap’s user
4 engagement data was known to Snap senior management, as he had raised the issue to
5 Spiegel, Vollero, and other senior executives. Specifically, Pompliano alleged that
6 when he raised the unreliability of these user metrics, Snap’s Vice President of
7 Communications and CFO, Defendant Vollero, acknowledged the user engagement
8 metrics were unreliable. Moreover, Spiegel allegedly dismissed the importance of
9 maintaining the integrity of user data and the accuracy of the Company’s public
10 representations, stating that “it was no big deal that Snapchat’s public statements that
11 it had over 100 million DAU were false.”

12 72. In sum, Pompliano’s detailed allegations—which were known to
13 Defendants before the Registration Statement was filed—raised questions about the
14 integrity of Snap’s critical user engagement data, and suggested a tone at Snap set by
15 Spiegel and Vollero of tolerance of internal control failures involving the fundamental
16 metrics upon which Snap’s enterprise was based, and also retaliation against those who
17 questioned these deficiencies.

18 **5. Facebook Releases A Competing Product Six Months Before**
19 **the IPO Which, Undisclosed to Snap’s Investors, Has an**
20 **Immediate and Dramatic Impact on Snap’s Growth**

21 73. One of Snap’s principal competitors is Facebook. In November 2013,
22 driven by declining usage rates among teens, Facebook offered \$3 billion to purchase
23 Snap, which was then a fledgling company with little revenue. Spiegel rebuffed the
24 offer. Having failed to acquire the competing platform, Facebook sought to replicate
25 Snapchat’s most popular features, including its popular image and location filters that
26 helped fuel Snap’s rapid growth. In December 2013, Facebook launched Instagram
27

1 Direct, a private photo-sharing and messaging service for Instagram that sought to
2 compete with the popularity of Snapchat’s direct messaging features.

3 74. The turning point came in August 2016, when Instagram released its own
4 version of Snapchat’s wildly popular “Stories” feature, which allows users to share
5 multiple photos and videos in a slideshow format. Bearing the identical name,
6 Instagram’s Stories was a virtual clone of Snapchat Stories.

7 75. Facebook’s mimicry of Snapchat went beyond copying popular Snapchat
8 features. Instagram sought to deprive Snap of the essential characteristic that had
9 defined the Company since its founding: the ephemeral aesthetic. One of the key
10 innovations for Instagram’s users in 2016 was that Instagram added “ephemeral” photo
11 and video messaging capabilities to Instagram Direct, and disappearing posts to
12 Instagram Stories, thus replicating the core functionality that Snapchat used to
13 distinguishing itself from its competitors. As Snap stated in the Registration Statement,
14 “Snaps are deleted by default, so there is a lot less pressure to look pretty or perfect
15 when creating and sending images on Snapchat.”

16 76. In a November 2016 interview with *TechCrunch*, Instagram explained
17 why it added “ephemerality” to the range of clone features it had lifted directly from
18 Snapchat:

19 “We pivoted” Instagram’s head of product Kevin Weil tells me. Instagram
20 should be all of your moments, not just your highlights.” Since the new
21 Live and Direct content self-destructs, Instagram hopes users will be less
concerned about how they look or if they’re doing something cool.”

22 The intent could not have been clearer: Instagram was adopting wholesale the key
23 aesthetic Snapchat had used to distinguish itself from its social media peers.

24 77. Undisclosed to investors in Snap’s IPO, Facebook’s multifaceted
25 replication strategy had an immediate and dramatic impact on Snapchat’s user growth
26 and engagement. As investors would later learn, in the six months preceding the IPO,
27

1 Instagram had caused a dramatic decline in Snap’s DAU growth and other user metrics.
2 As was reported by *Forbes* in April 2017, after the IPO:

3 Snapchat has reigned as the kin[g] of ephemeral video since its founding,
4 but Instagram recently stepped in to take [its] shot. In August 2016, years
5 after Snapchat first released Stories, Instagram released its own version
6 with Instagram Stories. This allowed users to share multiple photos and
7 videos in a slideshow format. It was basically a clone of Snapchat Stories,
8 but even though it was later to the party, engagement quickly started to
9 tip in Instagram’s favor.

10 A report on TechCrunch found that ***Snapchat Stories view counts dipped***
11 ***by 15-40 percent after Instagram Stories launched, and posting volume***
12 ***declined as well.*** Meanwhile, Instagram view counts soared, and most
13 influencers have seen engagement rates that are 3-5x higher on Instagram
14 than on Snapchat. ***Within six months, Instagram Stories hit 150 million***
15 ***daily users, which is only slightly less than the number of daily active***
16 ***users for Snapchat’s entire app.*** In early April, Facebook announced that
17 Instagram Stories had reached 200 million daily active users (DAUs) and
18 the media quickly piped to say that Instagram had “officially crushed
19 Snapchat” and Snapchat was “dead.”

20 78. Former employees confirm that it was known within Snapchat that
21 Instagram Stories was responsible for Snap’s decline user growth and engagement.
22 Moreover, the threat of competition by Instagram led Snap’s customers to question the
23 value of Snapchat as a platform for advertising, concerns which were directly
24 communicated to Snap’s senior management prior to the IPO.

25 79. For example, FE 1 revealed that from the second and third quarters of
26 2016 until the time FE 1 left Snap in the first quarter of 2017, there was an ongoing
27 and widespread concern within Snap regarding Instagram’s effect on Snap’s ability to
28 compete for advertisers. FE 1 described how sales teams were nervous because
Instagram came up in conversations with Snap’s major advertising clients, particularly
after Instagram Stories was launched, and the concern about Instagram was always in
the background in such conversations. FE 1 stated that it was known internally at Snap
that Facebook was spending a lot of money on Instagram in order to compete with
Snapchat. FE 1 revealed that after Instagram launched its Stories function, concerns

1 about Instagram and Snap’s ability to compete specifically came up in the sales team’s
2 conversations with advertisers.

3 80. FE 1 stated that in light of Instagram’s release of Stories, Snap’s pitch to
4 advertisers centered on Snapchat’s authenticity. FE 1 added that advertisers were told
5 that Snapchat was on an upward trajectory and the advertisers wouldn’t want to miss
6 the chance to get in on it. FE 1 noted that these claims were often met with skepticism.

7 81. FE 1 explained that the sales team’s concerns were relayed to Snap’s
8 executive management. FE 1 stated that sales personnel told Snap’s executive
9 management that Snap had to respond to Instagram’s Stories launch and asked what
10 they should say to advertisers. In response, Snap released a statement internally to the
11 Company’s employees responding to this concern. FE 1 stated that this statement by
12 executive management simply touted Snap’s ability to innovate and summarily
13 dismissed the concerns about competition.

14 82. FE 2 described a January 2017 company-wide meeting held in an airplane
15 hangar in Santa Monica, which FE 2 characterized as an attempt to host an Apple-style
16 town hall for all employees. At the company-wide meeting, Spiegel held a Q&A
17 session in which he fielded numerous questions from Snap employees concerned about
18 the Company’s ability to compete with Instagram and the negative sentiment about
19 Snapchat expressed to sales staff from advertisers. FE 2 recalled that these concerns
20 were met with a dismissive attitude and a vague call to execute on the Company’s
21 strategy and not worry about Facebook. FE 2 also recalled the company-wide memo
22 from Spiegel that sought to summarily dismiss the concerns expressed by employees
23 about the impact of competition from Facebook.

24 83. FE 2 revealed that in contrast to management’s dismissive attitude, Snap
25 sales personnel were left to convince skeptical advertisers of the value of investing in
26 Snap’s platform, whose effectiveness was unproven, instead of Facebook or Instagram,
27 with which advertisers were familiar and more confident in their return on investment.

1 FE 2 revealed that in light of the consistent concerns expressed by Snap’s advertising
2 customers about the value of Snap’s platform, Snap’s internal sales projections and
3 assumptions about their ability to grow and monetize their platform were unreasonable.
4 For example, FE 2 revealed that sales teams in different regions, including Dallas, New
5 York, and Chicago were unable to meet the Company’s sales targets, which assumed
6 continued exponential growth.

7 84. These accounts are corroborated by new reports published after the IPO,
8 which revealed that internally at Snap there was widespread anxiety over Snap’s
9 inability to compete with Facebook. For example, as recounted in a *Business Insider*
10 profile of Spiegel published months after the IPO in August 2017:

11 Around the time of Snap’s initial public offering in early March,
12 employees got a rare chance to ask the CEO, Evan Spiegel, anything on
their minds.

13 Unlike the “town hall” meetings at Google, Facebook, and other tech
14 companies, the Q&A at Snap was a written affair. Using a shared
15 document, employees submitted questions to the company’s 27-year-old
leader.

16 The result revealed a common anxiety: About one dozen of the questions
17 were a variation of whether employees should worry about Snapchat’s
competitors, particularly Facebook and Instagram, which appeared to be
18 crimping Snapchat’s rapid growth.

19 85. Consistent with the accounts of Snap former employees, the report
20 revealed that Spiegel minimized the risk of competition from Instagram, dismissing
21 the concerns of his employees:

22 Spiegel’s responses were short, and the one-word answer “no” was all that
23 was written next to some of the queries, according to multiple people with
24 knowledge of the document. Other answers of Spiegel’s explained how
employees should not think about the competition and should instead
25 focus on delivering the best products and on innovating.
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27
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1 **6. Faced with Declining User Growth and Engagement, Snap**
2 **Rushes to Go Public**

3 86. Faced with aggressive competition from Facebook, Snap’s window of
4 opportunity to take the Company public at the highest possible valuation was closing,
5 and so Defendants raced to bring Snap public.

6 87. In an October 8, 2016 article, *Business Insider* noted that “For now,
7 momentum continues to swing in Snap’s favor, despite increased pressure from rivals
8 like Facebook-owned Instagram.” However, the article noted that “Snapchat’s position
9 as the hottest app in tech could become precarious if it ever hits a plateau in user
10 growth.”

11 88. Snap’s sudden rush to go public did not go unnoticed. For example, in
12 a November 16, 2016 article, *Fortune* wondered “Why Is the Most Secretive Company
13 in Such a Hurry to Go Public?” questioning why “the most secretive company in the
14 world wants to force itself to start sharing.”

15 89. Snap’s eagerness to tap into public investors as a source of capital
16 surprised even its own venture capital backers. For example, in a February 2, 2017
17 interview with *Forbes*, General Catalyst partner Hemant Taneja, whose firm invested
18 \$10.5 million in Snap beginning in 2013, acknowledged that the IPO “definitely
19 happened faster than I thought” and that he was surprised that “they’re going to go tap
20 the public markets already.”

21 90. Market analysts at the time of the IPO also noted that Snap’s decision to
22 go public came much earlier than its social media peers such as Facebook and Twitter
23 in terms of their monetization of their user base and overall profitability.

24 91. Fortunately for Snap, its IPO was hotly-anticipated among investment
25 banks, in part because 2016 represented a low-point for IPO activity in the U.S., with
26 the least number of new companies going public since the financial crisis. Moreover,
27 Snap was the first U.S.-based social-media company to go public since Twitter, Inc. in
28

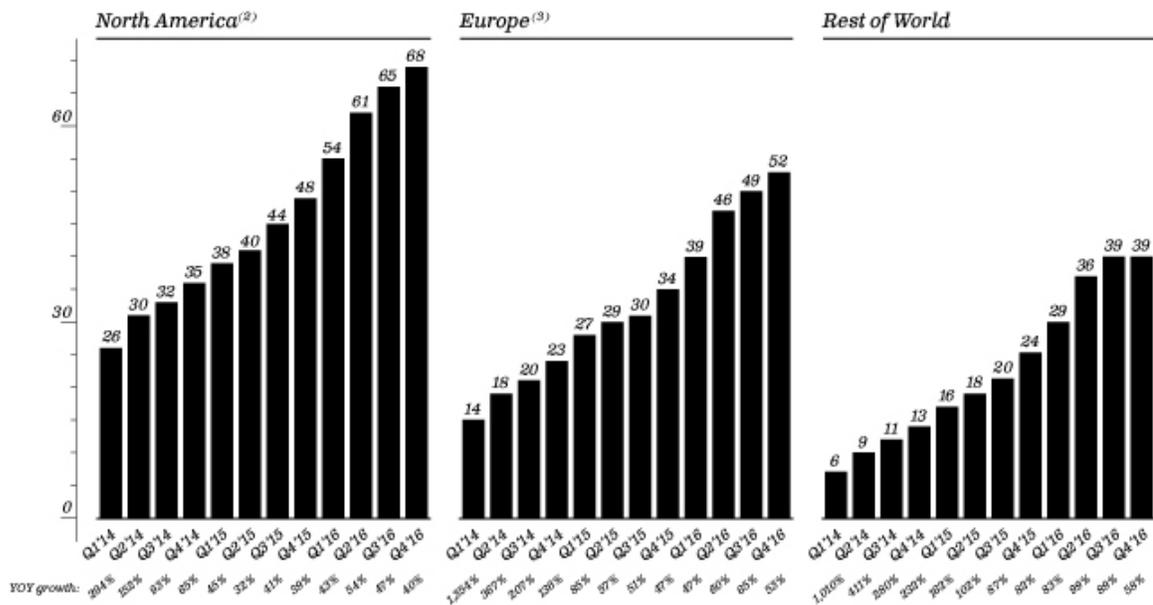
1 2013. Snap thus found willing counterparts in the Wall Street investment banks who
2 agreed to tout Snap to investors in exchange for lucrative commissions.

3 92. The *Los Angeles Times* summed up the frenzy surrounding Snap's IPO on
4 October 7, 2016, stating: "For years, Los Angeles' tech industry has been waiting for
5 its big day: image-sharing app Snapchat's initial public offering. Now the region's
6 engineers and investors may finally be able to start circling dates on the calendar."

7 **B. Snap's IPO**

8 93. On February 2, 2017, Snap filed a preliminary version of the registration
9 statement and prospectus with the SEC on Form S-1, and filed amendments thereto on
10 Form S-1/A on February 2, 2017, February 9, 2017, February 16, 2017, and February
11 27, 2017, respectively. The Registration Statement was signed by the Executive
12 Defendants and was declared effective by the SEC on March 1, 2017.

13 94. In contrast to Snap's early investors and the Wall Street banks that
14 shepherded Snap to its IPO, average investors were left to rely on Snap's public filings
15 in order to assess the risks of their investment. Unfortunately for these investors,
16 Snap's Registration Statement painted a false portrait of a quickly growing Company
17 on the verge of sustained, profitable growth. In doing so, the Registration Statement
18 failed to disclose the known impact that Instagram's clone Stories function was having
19 on Snap's user growth and engagement. Moreover, Defendants failed to disclose
20 Pompliano's detailed, credible allegations, filed under seal in January 2017, regarding
21 Defendants' knowing misrepresentation of its user engagement metrics and severe
22 internal controls deficiencies, rendering its risk disclosures regarding its user
23 engagement metrics materially false and misleading.
24



98. The geographical breakdown Snap provided is especially significant, because as Snap stated in the Registration Statement, “Our products often require intensive processing and generate high bandwidth consumption by our users. As a result, our users tend to come from developed countries with high-end mobile devices and high-speed cellular internet.” Further, Snap stated in the Registration Statement that “We expect growth to continue to come from developed markets with readily available high-speed cellular internet and high-end mobile devices because we prioritize our investment in product innovation that often requires a lot of bandwidth and intensive processing.”

99. In explaining the data provided in the Registration Statement, Snap assured investors that while “[t]he rate of net additional Daily Active Users was relatively flat in the early part of the quarter ended December 31, 2016,” the Company’s user growth had “historically experienced lumpiness in the growth of our Daily Active Users” and “*accelerated in the month of December.*” Snap explained this relatively flat DAU growth as being “*primarily related to accelerated growth in user engagement earlier in the year*, diminished product performance, and increased competition.” However, Snap qualified that “We believe that diminished product

1 performance and increased competition especially impacted the growth of our Daily
2 Active Users *outside of North America and Europe.*”

3 100. The Registration Statement emphasized that with respect to DAU growth
4 in its core developed markets in North America and Europe, the slowing growth in
5 DAU was a function of “*increased user engagement.*” According to the Registration
6 Statement: “The rate of net additional Daily Active Users accelerated in the first half
7 of 2016 compared to the second half of 2015, *largely due to increased user*
8 *engagement from product launches and increased adoption rates among older*
9 *demographics.*” Snap explained that “This created a higher baseline of Daily Active
10 Users heading into the third and fourth quarters, *so incremental net additions within*
11 *these quarters were more difficult even with strong year-over-year growth.*”

12 101. Similarly, with respect to “diminished product performance,” the
13 Registration Statement falsely assured prospective investors that these non-specific
14 technical issues were primarily responsible for any observed slowdown in Snap’s user
15 growth, and further that these issues were localized outside of Snap’s core North
16 American and European markets, stating that “in mid-2016, we launched several
17 products and released multiple updates, which introduced a number of technical issues
18 that diminished the performance of our application. We believe these performance
19 issues resulted in a reduction in the growth of our Daily Active Users, particularly
20 among Android users.” Snap added that “We believe that the effect of some of these
21 factors is amplified in countries outside of North America and Europe due to
22 infrastructure and user behavior.”

23 102. Snap minimized the impact of competitive pressures on the Company’s
24 slowing user engagement growth. For example, among “factors that *could* negatively
25 affect user retention, growth, and engagement,” the Registration Statement listed
26 “users increasingly engage with competing products instead of ours.” The Registration
27 Statement also noted that “our competitors *may* mimic our products and therefore harm
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1 our user engagement and growth.” However, Defendants maintained that these
2 competitive risks were only potential risks and not circumstances that had already
3 transpired and were presently harming the Company’s user engagement and growth.

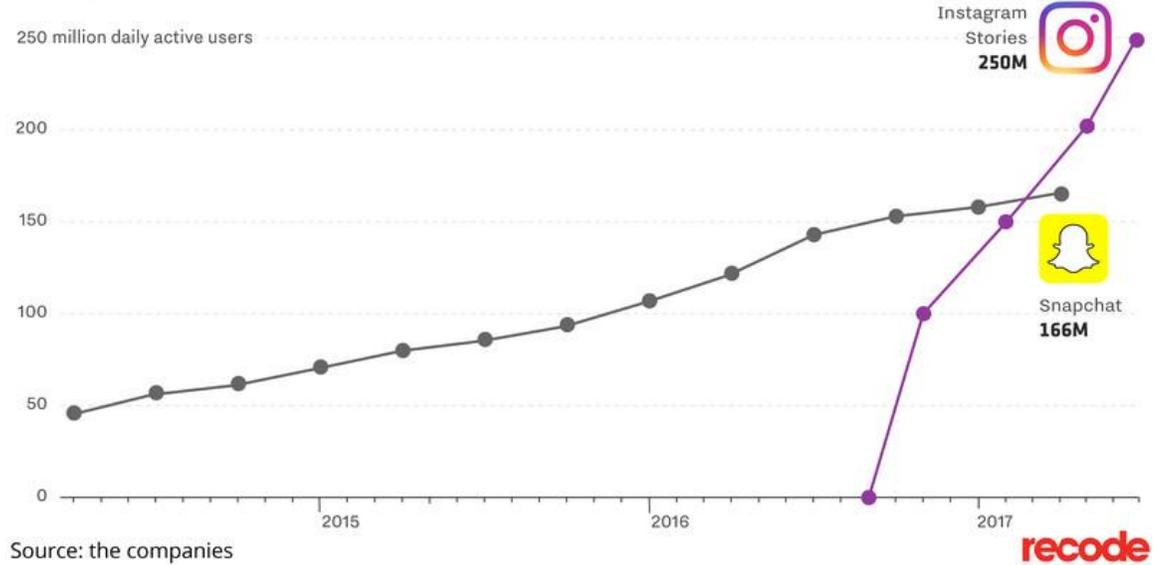
4 103. In particular, the Registration Statement noted that “Instagram, a
5 subsidiary of Facebook, recently introduced a ‘stories’ feature that largely mimics our
6 Stories feature and *may* be directly competitive.” In actuality, Facebook’s consistent
7 rollout of features mimicking Snap’s were, at the time the Registration Statement was
8 published, known by Snap’s management to be eroding Snap’s user engagement and
9 posing an existential threat to the Company.

10 104. The materially false impression created by the Company’s statements in
11 the Registration Statement that Instagram’s competition was merely a potential risk is
12 belied by the accounts of former Snap employees, who reveal that from the second and
13 third quarters of 2016 there was an ongoing concern within Snap regarding Instagram
14 and its impact on Snap’s user growth and engagement and, as a result, its ability to
15 compete for advertisers. Snap’s senior management specifically responded to these
16 concerns raised by employees by attempting to minimize the risk associated with
17 Instagram’s directly competitive Stories function.

18 105. Indeed, as would only be revealed after the IPO, Instagram replication of
19 Stories had an immediate and dramatic impact on Snapchat’s user growth and
20 engagement, as reflected in the following chart:
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Instagram Stories versus Snapchat daily active users



106. The trend above was known to Snap’s senior management prior to the IPO. Indeed, news reports issued after the IPO confirm widespread anxiety among Snap’s employees about the impact of competition from Facebook on Snap’s user growth.

107. Despite internally recognizing that the limited pool of potential Snap users was being rapidly drained by its chief competitor and that Instagram user metrics were eclipsing Snap’s, Snap included only a boilerplate risk disclosure regarding the potential for declining user growth and engagement, stating among its “Risk Factors”:

We had 158 million Daily Active Users on average in the quarter ended December 31, 2016, and we view Daily Active Users as a critical measure of our user engagement. Adding, maintaining, and engaging Daily Active Users have been and will continue to be necessary. *We anticipate that our Daily Active Users growth rate will decline over time if the size of our active user base increases or we achieve higher market penetration rates.*

2. The Registration Statement Conceals Credible Allegations that Snap’s User Metrics were Unreliable

108. Snap’s Registration Statement assured investors that with respect to the key user metrics Snap cited throughout the IPO, they were “calculated using internal company data” and “are based on what we believe to be reasonable estimates of our

1 user base for the applicable period of measurement.” However, the Registration
2 Statement disclosed that “We regularly review, have adjusted in the past, and are likely
3 in the future to adjust our processes for calculating our internal metrics to improve their
4 accuracy.”

5 109. Yet, undisclosed to investors, the key user engagement metrics upon
6 which the Company’s advertising customers relied had long been the subject of internal
7 controversy at Snap.

8 110. The materiality of any perception in the unreliability of these metrics was
9 clearly understood by Snap as it noted in the “Risk Factors” section of the Registration
10 Statement, “Our user metrics and other estimates are subject to inherent challenges in
11 measurement, and *real or perceived inaccuracies* in those metrics may seriously harm
12 and negatively affect our reputation and our business.” Snap further disclosed that its
13 advertising revenue could be “seriously harmed” in the event of changes in “advertiser
14 perception of the value of our products that change the rates we can charge for
15 advertising or the volume of advertising on Snapchat.”

16 111. Specifically, the Registration Statement indicated:

17 If advertisers, partners, or investors do not perceive our user, geographic,
18 or other demographic metrics to be accurate representations of our user
19 base, or if we discover material inaccuracies in our user, geographic, or
20 other demographic metrics, our reputation may be seriously harmed. And
at the same time, advertisers and partners may be less willing to allocate
their budgets or resources to Snapchat, which could seriously harm our
business.

21 112. Despite warning investors of the potential risk posed by *perceived*
22 *inaccuracies* in the reliability of Snap’s user metrics, the full extent of the Company’s
23 disclosures as it related to the historical reliability of its user metrics was limited to the
24 following:

25 In the past we have relied on third-party analytics providers to calculate
26 our metrics, but today we rely primarily on our analytics platform that we
27 developed and operate. For example, before June 2015, we used a third
party that counted a Daily Active User when the application was opened

1 or a notification was received via the application on any device. We now
2 use an analytics platform that we developed and operate and we count a
3 Daily Active User only when a user opens the application and only once
4 per user per day. We believe this methodology more accurately measures
5 our user engagement. Additionally, to align our pre-June 2015 Daily
6 Active Users with this new methodology, we reduced our pre-June 2015
7 Daily Active Users by 4.8%, the amount by which we estimated the data
8 generated by the third party was overstated. Since this adjustment is an
9 estimate, the actual pre-June 2015 Daily Active Users may be higher or
10 lower than our reported numbers. As a result, our metrics may not be
11 comparable to prior periods.

12 113. Omitted from this disclosure was the highly material fact that the changes
13 Snap had made to its historical methodology for assessing Daily Active Users were
14 prompted by an internal whistleblower, Pompliano, who had since filed a retaliatory
15 discharge lawsuit based on his firing for raising these issues. Snap failed to disclose
16 Pompliano's credible allegations that Snap had historically misstated its user metrics
17 due to a failure to maintain proper internal controls over its user data.

18 114. Snap's omission of Pompliano's allegations and the ongoing controversy
19 surrounding the reliability of Snap's user engagement metrics rendered their discussion
20 of the risks posed to Snap due to a change in advertisers' perception of the business
21 materially misleading. Regardless of whether Snap disputed Pompliano's claims, as
22 Snap noted in the Registration Statement, even the prospect of his credible allegations
23 leaking out posed a material threat to Snap's fledgling advertising business and its
24 ability to compete with Instagram. Failing to fully disclose Pompliano's allegations,
25 or the nature of his sealed lawsuit, constituted a material omission that rendered the
26 Registration Statement misleading.

27 115. In addition, Defendants had a duty to disclose Pompliano's complaint
28 under General Accepted Accounting Principles ("GAAP"). Specifically, under
Accounting Standards Codification Topic 450 ("ASC 450"), which governs the
disclosure and accrual of contingencies by public companies in their reports filed with
the SEC, if the likelihood of a material loss is "reasonably possible," i.e., more likely
than remote, but less likely than probable, and the amount of the reasonably possible

1 loss is estimable, then a company must disclose the nature of the contingency and also
2 provide its estimate of the amount or range of loss. Otherwise, if the reasonably
3 possible loss is not estimable, then a company must disclose the nature of the
4 contingency and describe why it is unable to estimate the amount of the loss.

5 116. ASC 450-20-55 provides examples of loss contingencies covered by ASC
6 450 and, as pertinent here, specifically includes “litigation, claims, and assessments.”
7 At minimum, ASC 450-20-55-13 provides that a loss contingency involving a filed
8 claim must be disclosed if there is a reasonable possibility that the outcome will be
9 unfavorable. Thus, in cases where the filed claim has not yet been resolved, but an
10 unfavorable outcome is reasonably possible, ASC 450 requires a public company to
11 disclose the nature of the contingency and any amount of loss that is reasonably
12 possible. ASC-450-20-55-31.

13 117. Despite having a duty to do so, Snap failed to disclose Pompliano’s
14 complaint in its discussion of litigation-related risk facing the Company. Given that,
15 according to the Registration Statement, “*real or perceived inaccuracies* in [Snap’s
16 user metrics] metrics may seriously harm and negatively affect our reputation and our
17 business,” Pompliano’s allegations posed a risk of material loss that was at least
18 reasonably probable, regardless of whether Snap disputed Pompliano’s claims.

19 **3. Snap’s Roadshow: The Underwriters Help Cement the**
20 **Company’s False Growth Narrative**

21 118. In February 2017, the Company went on a road show with the
22 underwriters in Snap’s IPO to promote its impending IPO. Each of the underwriters
23 participated in the roadshow, which hosted investors at least nine different events in
24 cities including New York, Boston, Los Angeles, San Francisco, and London.
25 Representing Snap were Defendants Spiegel, Vollero, and Khan.

26 119. The roadshow materials amplified the Registration Statement’s portrayal
27 of Snap having a rapidly growing and highly engaged daily user base that was on the
28

1 cusp of being profitability monetized. Furthermore, Defendants dismissed any
2 concerns about slowing growth or Snap’s seemingly improbable valuation. As was
3 reported in *Forbes* at the time of the roadshow:

4 In a room of more than 400 investors on the 36th floor of New York’s
5 Mandarin Oriental Hotel, Spiegel brushed aside concerns of slowing user
6 growth and stressed Snap’s potential to change “the way people live and
7 communicate,” according to sources who asked not to be identified
8 because the meeting was closed to the press.

9 120. As part of the Company’s roadshow presentation, Khan touted that Snap’s
10 “users come to Snapchat almost every waking hour.” Khan emphasized the
11 opportunity Snap presented for advertisers to capture a coveted demographic, stating
12 that “the majority of [Snap’s] users [were] between the ages of 13 and 34” and that
13 these “users represent a big opportunity for us, because they’re harder to reach on
14 traditional media and they’re often highly sought after by advertisers.”

15 121. Khan highlighted the Company’s user engagement metrics, touting that
16 “any given day, more than 60% of our daily users are using our cameras to express
17 themselves.”

18 122. With respect to profitability, Vollero emphasized that “our platform
19 monetization is real, it’s growing, and it’s sustainable.” In support of these claims,
20 Vollero cited the Company’s user engagement metrics:

21 We measure engagement in our community through daily active users
22 (what we call DAU), because we believe that daily investment in the form
23 of energy and creativity is the most reliable way to understand
24 engagement. Growth in user engagement is a key metric for us. Over the
25 last three years, users have grown from 71 million in the fourth quarter of
26 2014, to 107 million in the fourth quarter of 2015, to 158 million in the
27 quarter ending December, 2016. As of the fourth quarter of 2016, our
28 DAU have grown 48% compared to the same period last year.

29 123. Vollero added that the “combination of an engaged user base and great ad
30 products is producing powerful results. Our business is scaling quickly as advertisers
31 have really had some impressive wins using SNAP.”

1 public investors, despite their payday, Defendants Spiegel and Murphy managed to
2 retain control of approximately 88.5% of voting stock.

3 129. Pumped up by Defendants' misleading Registration Statement and
4 offering materials, on the day of the IPO, Snap's stock price soared to a Class Period
5 high of \$29.44 per share.

6 **5. The Underwriter Banks Initiate Coverage with Price Targets**
7 **Well Above the IPO Price**

8 130. Snap's IPO valuation was based in part on a multiple of future earnings.
9 In other words, despite the fact that the Company had never generated a profit and its
10 disclosed expenses more than doubled its revenues, at the time it went public, the
11 underwriters priced Snap based on its future potential to turn a profit. Accordingly,
12 the Company's anticipated growth trajectory based on its current user growth trends
13 was the essential data point in valuing Snap's stock.

14 131. After Snap's IPO, buy-side securities analysts working for the
15 underwriters initiated coverage of Snap with price targets well *above* the IPO price,
16 representing significant premiums over even the underwriters' asserted \$17 per share
17 valuation. The investment theses of these firms read as if they were lifted straight from
18 Snap's Registration Statement.

19 132. Morgan Stanley, the lead underwriter in the IPO, initiated coverage of
20 Snap on March 28, 2017, rating Snap shares as overweight and setting a price target of
21 \$28. In support of its assessment, Morgan Stanley noted Snap's "engaged/hard-to-
22 reach millennial users," stating that "We are bullish about Snap's ability to monetize
23 its highly engaged daily active user (DAU) base (~160mn DAU spending an average
24 of 25-30 mins/day)." Other analysts echoed Morgan Stanley's valuation analysis. For
25 example:

- 26 a. Deutsche Bank initiated coverage with a "Buy" recommendation,
27 setting a \$30 price target premised on Snap being "an attractive
28

1 opportunity to buy the next great mobile ad business amidst a sea of
2 investor skepticism.” The report concluded that “several key investor
3 concerns” such as the Company’s current lack of profitability and the
4 threat of competition, were “overblown,” and that Snap’s opportunities
5 in the areas of user engagement and monetization were
6 “underappreciated by investors.”

7 b. J.P.Morgan initiated coverage with a year-end price target of \$24. In
8 support of its valuation, J.P.Morgan noted “Snap’s camera-first social
9 platform has a highly engaged and attractive user base with significant
10 monetization runway.”

11 c. Similarly, Barclays initiated coverage with a year-end price target of
12 \$24, *highlighting* the fact that Snap was “significantly under-
13 monetized” as a reason for it being valued at a multiple of 13 times
14 2018 projected earnings. In Barclays view, *because* Snap lacked
15 current revenues it “should have a relatively easy path to \$3B+ in
16 revenue primarily from higher ad load.”

17 d. Credit Suisse set a price target of \$30 and asserted that Snap shares
18 were “a scarce asset” and “a margin expansion story.”

19 133. In the months following the IPO, the representations in the Registration
20 Statement and other offering materials were echoed by numerous analysts. For
21 example, on March 14, 2017, S&P Capital IQ predicted Snap revenues of “\$1.0 billion
22 in 2017, \$2.0 billion in 2018 and \$3.0 billion in 2019. We anticipate these gains being
23 driven by greater user adoption and usage, more offerings and features, geographic
24 expansion, and an increasing focus on monetization.” Similarly, on March 27, 2017,
25 Jefferies reported that “Snap looks well positioned for growth as advertisers clamor to
26 serve ads to its large audience of deeply-engaged users, many of whom are in the
27 attractive millennial demographic and are located in high-value ad markets.” With

1 respect to its chief competitor, the report noted that Facebook’s average revenue per
2 user (“ARPU”) was “around 9x higher than Snap’s ARPU” but that the analysts
3 expected “sharp ARPU growth as this gap narrows.”

4 134. In anticipation of the Company’s first quarter operating results, including
5 its all-important DAU metric, analysts predicted an acceleration in new DAU,
6 highlighting Defendants’ explanations in the Registration Statement for the recent
7 slowdown in DAU growth. For example, in a report on April 12, 2017, Barclays cited
8 *“management’s commentary that December was a good month and ‘back on track’”*
9 *as a reason for “a DAU that is better than the +6m adds in 4Q.”*

10 VI. THE TRUTH IS GRADUALLY REVEALED

11 A. Pompliano Blows the Whistle on Snap’s Allegedly Unreliable User 12 Engagement Metrics

13 135. Pompliano filed a complaint against Snap in Los Angeles Superior Court
14 for violation of California’s labor laws (“Pompliano California Complaint”) in January
15 2017. The initial complaint was filed under seal, with only a heavily-redacted version
16 available for the public. On May 16, 2017, Pompliano filed a complaint in the United
17 States District Court for the Central District of California (the “Pompliano Federal
18 Complaint”), alleging violations of the Dodd-Frank Whistleblower Statute, and other
19 claims, based on the same allegations as his state complaint. With the exception of
20 several exhibits, the Pompliano Federal Complaint was not redacted.

21 136. In his complaints, Pompliano alleges that he was fraudulently induced to
22 join Snap based on the Company’s representations of double-digit, month-over-month
23 growth in its active user base, and that it had already acquired 100 million daily active
24 users.

25 137. Pompliano recounts that once he joined Snap, he discovered that these
26 representations were false and that the company used these same false metrics in
27 representations to advertisers, the public, and to private investors when raising capital.

1 Pompliano urged Snap to make corrective disclosures by reporting the issue to the
2 highest levels of management, but he was rebuffed.

3 138. Pompliano describes how his efforts to expose and remedy the falsity of
4 the Company’s user engagement metrics resulted in his wrongful termination, and that
5 after he was terminated, Snap sought to destroy his career and reputation by making
6 false representations concerning the circumstances of his termination.

7 139. Pompliano recounts how during the course of Snap’s aggressive efforts to
8 recruit him, Khan and Brian Theisen (“Theisen”),² Snap’s then-Director of Business
9 Operations, repeatedly represented that Snap was experiencing double-digit, month-
10 over-month growth in its DAU, and further represented that the company was the
11 fastest on record among social media platforms to acquire 100 million DAU.

12 140. After he joined Snap, Pompliano recounts that he met with his initial team
13 members, data analysts Jie Liu (“Liu”) and Shizhang “Ben” Wu (“Wu”), both of whom
14 Pompliano knew as former Facebook analysts. These analysts revealed to Pompliano
15 Snap’s “institutional aversion” to analyzing user data and that its current user
16 engagement metrics were “completely unreliable.” Pompliano explains that Liu and
17 Wu walked Pompliano through various data that demonstrated Snap’s inability to
18 reliably measure user engagement. Pompliano also discovered that at the time of his
19 employment, Snap had virtually no internal controls in place to verify the accuracy of
20 user engagement data.

21 141. Based on what he learned from these analysts, Pompliano describes how
22 he ran tests to verify all of Snap’s user engagement metrics. Pompliano sought to
23 obtain the current metrics concerning Snap’s DAU and its historical active user growth
24 rate. However, Pompliano recounts that Snap did not have a reliable method in place
25 to measure its DAU at this time. Instead, Snap relied on two different programs and
26 data sets, both of which were known to be inaccurate. The first method used a program

27 _____
28 ² Theisen recently changed his last name to Ames.

1 called Flurry, which was based on external analytics and included in its count a variety
2 of push notifications (i.e., messages sent by Snapchat to users, which, if opened, would
3 count as user activity even if the user did nothing further) and led to overstated DAU.
4 The second method used a program called Blizzard that was based on an internal data
5 pipeline and undercounted DAU because it missed older users. According to Liu and
6 Wu, Snap had no way of knowing which of the two measurements, if either, was
7 accurate. Instead of trying to reconcile the internally competing data, and ensuring that
8 they were relying on accurate metrics, Snap “merely picked numbers at random that
9 they guessed were accurate.”

10 142. Pompliano alleges that when he reviewed the results from these two
11 programs, even the exaggerated count generated by Flurry showed only 97 million
12 DAU, while Blizzard showed only 95 million DAU, significantly less than the 100
13 million DAU Snap claimed it had already achieved long ago.

14 143. Based on these results, Pompliano asked his team to obtain all of the
15 available data going back to January 1, 2015, to conduct further due diligence.
16 Pompliano alleges that the more he investigated, the less reliable Snap’s user
17 engagement data became. Pompliano alleges that he applied a variety of analytical
18 tools to rigorously measure DAU at several points between January 1, 2015, and
19 September 1, 2015. The data revealed that Snapchat’s purported double-digit month-
20 over-month DAU growth rate was false and grossly overstated. In fact, during this
21 timeframe Snapchat’s DAU growth rate ranged from 1% to 4% per quarter, a small
22 fraction of the double-digit month-over-month DAU growth Snap claimed.

23 144. Pompliano alleges that his investigation revealed a systemic failure in
24 Snapchat’s internal controls over critical user engagement data. For example,
25 Pompliano’s investigation revealed that major inaccuracies in Snapchat’s registration
26 flow completion rate (the percentage of users who complete the Snapchat registration
27 process after starting it). Pompliano learned that while Spiegel and others on the

1 executive management team were representing that 87% of potential users completed
2 the registration process, the data showed that the number was, in fact, less than 40%.
3 Furthermore, Pompliano determined that another key metric used by Snapchat, its user
4 retention rate, was woefully inaccurate. Whereas the Company had been representing
5 that it was losing around 60% of its users after 7 days, resulting in a roughly 40%
6 retention rate, the data showed that its retention rate was, in fact, closer to 20%.

7 145. In sum, Pompliano alleges that there were serious issues at every level of
8 Snap's user engagement data. These issues included not only major inaccuracies in the
9 final reported metrics, but also serious deficiencies in how Snapchat's data tools and
10 products were implemented, monitored, and supported.

11 146. Given these glaring issues with the reliability of Snap's user engagement
12 data, Pompliano alleges that Snap was misleading advertisers, and investors. For
13 example, Pompliano alleges that he saw hard copies of marketing brochures used to
14 solicit advertisers that represented that Snapchat had over 100 million DAU, when at
15 the time, the number was significantly lower and closer to 80 million.

16 147. Pompliano recounts how he raised the discrepancy between Snap's
17 internal user engagement data and the representations it was making to advertisers to
18 Jill Hazelbaker ("Hazelbaker"), Snapchat's former Vice President of Communications.
19 Hazelbaker had joined Snap just a year earlier from Google. Pompliano revealed how
20 Hazelbaker told him that she too was aware of the issue and had repeatedly raised it
21 internally, but was ignored. Hazelbaker left Snap in October 2015.

22 148. Pompliano also alleges that he informed Khan about his findings
23 concerning Snap's wildly inaccurate user engagement metrics. Khan agreed to arrange
24 a meeting with Spiegel so that Pompliano could present his findings.

25 149. In preparation for the meeting, Pompliano (with the assistance of Snap
26 engineers, data analysts, and Theisen) created a PowerPoint presentation to interpret
27 and summarize the results of his deep analytics applied to Snap's data, in order to give
28

1 Snap’s executive management team an accurate picture of Snap’s true user metrics and
2 to identify the errors he found in several of Snap’s user engagement metrics, including
3 its DAU, active user growth rate, user retention rate, and user registration completion
4 rate. To ensure the accuracy of the findings, Pompliano circulated drafts of his
5 presentation to a number of analysts to confirm the underlying data and obtain their
6 input prior to the presentation. Pompliano also solicited the input of many other Snap
7 executives and sent the presentation to the persons who were scheduled to attend the
8 meeting, including Defendants Spiegel and Khan.

9 150. Pompliano’s presentation was filed under seal with the Court as an exhibit
10 in support of his federal complaint. *See Pompliano v. Snap, Inc.*, Case No. 2:17-cv-
11 3664, ECF No. 1-4. The body of the complaint included an un-redacted version of
12 page 4 of the presentation:

13

14

15 **Room for Improvement**

16

- 17 • Data is unreliable and inaccurate
 - 18 – Different pipelines report different numbers
 - 19 – Few people have confidence in the data
- 20 • Many basic tools are missing
 - 21 – Dashboards, testing frameworks, targeting tools, etc
- 22 • Key positions are unfilled
 - 23 – Very few experienced growth engineers
 - 24 – No current Growth Marketers
 - 25 – Understaffed data team

26

27

28

151. As alleged in Pompliano’s federal complaint:

[Pompliano’s] presentation to Snapchat identified the underlying problem in clear terms: the data upon which Snapchat relied (and which it was disseminating to advertisers and investors, among others) was “unreliable

1 and inaccurate.” In the interests of preventing future harm to Snapchat,
2 the presentation confronted Snapchat’s senior management with the
3 undeniable truth that Snapchat’s own data was internally contradictory,
4 Snapchat was missing basic measurement tools, key positions on
5 Snapchat’s growth team were still unfilled, and that “[f]ew people ha[d]
6 confidence in [Snapchat’s] data.”

7 *Id.*, ECF No. 1 at ¶76.

8 152. Pompliano alleges that he communicated to Spiegel and Khan and the
9 other Snap executives that “[a]lthough Snapchat executives were publicly boasting
10 about their growth, internally, Snapchat personnel were sounding the alarm that such
11 growth was unsustainable (and indeed, already slowing).”

12 153. Pompliano details a meeting with Defendants Spiegel and Khan on
13 September 11, 2015. Pompliano recounts how Spiegel was “enraged throughout the
14 meeting and refused to listen to anything Mr. Pompliano said, constantly cutting him
15 off and summarily dismissing his points.” In response, Pompliano explained that he
16 and Snap’s analysts and engineers had examined the data carefully, and the results were
17 accurate.

18 154. Pompliano alleges that Spiegel stated that “it was no big deal that
19 Snapchat’s public statements that it had over 100 million DAU were false.”

20 155. Pompliano also recounts a meeting with Vollero during which Vollero
21 admitted that the metrics Snapchat had been using were wrong, and therefore their
22 representations were inaccurate and should be corrected.

23 156. Pompliano alleges that as a result of presenting these results and insisting
24 that Snap stop misrepresenting its user metrics, Snap executives conspired to have him
25 unjustly terminated. On September 18, 2015, Pompliano was terminated. Pompliano
26 recounts how during his final meeting with Snap he was told that the directive for him
27 to be terminated came from Spiegel.

1 157. Pompliano further alleges that Snap took preemptive measures to discredit
2 him, including by telling high-ranking executives in the social media industry that
3 Pompliano was terminated three weeks after he was hired because he was incompetent.

4 **B. Snap Denies All of Pompliano’s Allegations Prior to the IPO**

5 158. The Pompliano California Complaint was initially filed under seal on
6 January 4, 2017. *Business Insider* reported on January 5, 2017 that Snap immediately
7 denied the allegations, stating that the Pompliano California Complaint “has no merit”
8 and was “totally made up by a disgruntled former employee.”

9 159. Snap’s public denials continued. On January 18, 2017, the Company
10 moved to maintain the Pompliano California Complaint under seal, stating in a public
11 filing that Pompliano’s complaint was a “late-breaking bid” to air “sensationalist
12 allegations” as Snap prepared for its IPO. Furthermore, Snap derided Pompliano’s
13 allegations, stating that his “allegations against Snap are false from top to bottom and
14 right out of his allege-fraud-against-former-employers playbook.”

15 160. Notably, despite describing a number of other pending litigation matters,
16 the Registration Statement did not identify Pompliano’s lawsuit as a pending matter
17 nor describe the nature of its claims.

18 **C. After the IPO, New Details About Pompliano’s Allegations Emerge**

19 161. On April 4, 2017, it was reported by *Business Insider* that Pompliano had
20 moved to unseal the Pompliano California Complaint. The report noted that, according
21 to newly-released details about the Pompliano California Complaint, “[c]urrently
22 redacted portions of Pompliano’s lawsuit contain user metrics that he claims are
23 different from what Snap told investors and the press ahead of its February IPO.” The
24 report revealed that Pompliano alleged that “Snap’s outsized valuation is built on a
25 house of cards” that has been “systematically built through a coordinated effort from
26 Snap’s executives to personally reward themselves with billions of dollars by
27

1 maliciously manipulating metrics, suppressing metrics that put the company in a
2 negative light, and even, at times, blatantly misleading professional investors,
3 employees, advertisers, and now, retail investors.”

4 162. In response to this news, which was released to the market in the afternoon
5 of April 4, 2017, Snap’s share price fell approximately 7.3%, from a close of \$22.35
6 per share on April 3, 2017 to close at \$20.70 per share on April 5, 2017.

7 163. On April 10, 2017, Snap strategically filed an unsealed version of
8 Pompliano’s state complaint, claiming that it “ha[d] nothing to hide.” While the
9 Company attempted to discredit Pompliano, their decision to publicly file Pompliano’s
10 complaint only bolstered his allegations. For example, in the Company’s public filing,
11 Snap stated that it “was *not* telling advertisers or investors in mid-2015 that the app
12 had over 100 million DAUs. That, no doubt, is why Pompliano fails to identify who
13 made these supposed statements, to whom they were made, or how he is aware of
14 them” (emphasis in original).

15 164. In reality, there is ample evidence that Pompliano is correct that the
16 Company did falsely represented that Snap had reached 100 million DAU long before
17 it had actually achieved this important milestone. For example, at a tech conference
18 called “Code,” which was held in Palos Verdes California on May 26-28, 2015, Spiegel
19 told a packed auditorium that “Snapchat has close to 100 million daily active users ‘*in*
20 *developed countries.*” Dylan Tweney, “Engagement to die for: Snapchat has 100M
21 daily users, 65% of whom upload photos,” *VentureBeat* (May 26, 2015). Spiegel’s
22 claim is belied by the Registration Statements, which shows that as of the second
23 quarter of 2015, Snap had only 86 million DAU.

24 165. While the crux of Pompliano’s allegations had already been revealed to
25 the market, commentators took notice of the fact that the additional details corroborated
26 one of Pompliano’s core allegations: Snap had been forced to restate its historical DAU
27 numbers due to its reliance on third party measurement applications it knew to be false.

1 While Snap characterized this fact as “a musty, two-year-old allegation about a minor
2 metrics deviation,” and derided Pompliano’s state complaint as “ginned up” and “just
3 one big publicity stunt,” Snap’s denials could not overcome the fact that the
4 Registration Statement had confirmed part of Pompliano’s allegations.

5 166. For example, on April 13, 2017, *Fortune* magazine posted an in-depth
6 analysis of Pompliano’s allegations to its website. The article noted that Snap’s
7 “investors have reason to pay attention” because, despite the Company’s claims that it
8 had nothing to hide, “the unsealed lawsuit contains some key statistics that Snapchat
9 has never before disclosed, not even to investors.” The article noted that while Snap
10 contended that Pompliano was “‘fired for poor performance,’ he was right about one
11 important thing: Around the time Snap began selling ads on the platform, Snapchat
12 was not as popular as most people thought it was.” The article continued that while
13 “Snap vociferously denies misrepresenting its user metrics . . . what Snap does not
14 dispute is that the discrepancy underlying Pompliano’s argument actually existed.”
15 The article concluded that “[f]or investors, though, whether or not Snap exaggerated
16 *the user number matters less at this point than the fact that Pompliano’s lower*
17 *number turned out to be right.*”

18 167. The accuracy of Pompliano’s allegations regarding Snap’s misstated
19 historical user engagement data confirmed that Defendants had concealed a known
20 material risk that his allegations would result in “perceived inaccuracies” in Snap’s
21 user engagement metrics, which the Registration Statement conceded “may seriously
22 harm and negatively affect our reputation and our business” due to changes in
23 “advertiser perception of the value of our products that change the rates we can charge
24 for advertising or the volume of advertising on Snapchat.”

D. 1Q 2017 Results

1
2 168. The truth concealed by the Exchange Act Defendants’ false and
3 misleading statements and omissions regarding the impact that Instagram Stories was
4 having on Snap’s user growth and engagement began to emerge on May 10, 2017,
5 when Snap announced its financial results for the first financial quarter of 2017, which
6 revealed disappointing user growth. Snap’s first quarterly results as a public company
7 began to reveal to the market that the Exchange Act Defendants had made materially
8 false and misleading statements and omitted material adverse facts about the
9 Company’s user growth and the impact of competition from Instagram in the
10 Registration Statement. In a press release issued after the market closed, Snap reported
11 that “DAUs grew from 122 million in Q1 2016 to 166 million in Q1 2017, an increase
12 of 36% year-over-year. DAUs increased 5% quarter-over-quarter, from 158 million in
13 Q4 2016.”

14 169. In response to the news of Snap’s disappointing user growth Snap’s share
15 price declined \$4.93 per share, or approximately 21%, from a closing price of \$22.98
16 on May 10, 2017, to close at \$18.05 per share on May 11, 2017.

17 170. Analysts cited Snap’s disappointing DAU growth in particular as a cause
18 for the stock price decline on this date. For example, Morningstar reported on May 10,
19 2017 that “growth in daily average users, or DAUs, was disappointing.” Similarly,
20 Piper Jaffray reported that Snap’s “user growth and ad load ramp [was] underwhelming
21 given the company’s valuation” and that “[I]acking DAU and revenue upside in the
22 first quarter as a public company means SNAP is now firmly in the penalty box.”

23 171. As TechCrunch reported on May 10, 2017, “Snap’s growth rate increased
24 just a little in Q1 2017 – a bad start to its first quarterly earnings report since going
25 public.” Market commentators uniformly attributed Snap’s slowing user growth to
26 direct competition from Instagram. For example, *VentureBeat* reported on May 10,
27

1 2017 that “Facebook’s plan worked: Snapchat hits 166 million users, 34 million fewer
2 than Instagram Stories.” The report explained:

3 Let’s recap how this happened: Facebook launched Instagram Stories in
4 August 2016, a completely transparent effort to rip off the formula that
5 made Snapchat a success (and slow down Snapchat’s growth in the
6 process). Facebook’s attempts to copy Snapchat usually fail — Poke,
7 Slingshot, etc. — but Instagram Stories took off.

8 Investors were sweating over Snap’s growth last month after Facebook
9 said Instagram Stories had reached 200 million users — way above the
10 158 million users Snapchat had in December. Now it looks like they had
11 good reason to worry. Going into the second quarter of 2017, Instagram
12 Stories is both bigger than and growing faster than Snapchat.

13 Snapchat hitting 158 million users in 2016 was significant (the service
14 grew 48 percent in one year), but the app’s growth significantly slowed
15 down by the end of the year. Snapchat added 5 million users in Q4 2016,
16 and just a little more in Q1 2017 (8 million). Compared to early 2016, this
17 growth rate sucks, and the change correlates with the rise of Instagram
18 Stories.

19 172. Analysts also concluded that Snap’s quarterly results belied Defendants’
20 public statements about Snap’s ability to compete. For example, Barclays reported on
21 May 11, 2017 that “the 7m DAU net-adds were not strong enough to disprove the
22 ‘Facebook is crushing Snapchat’ thesis, which we think persists for a while.”
23 Similarly, TechCrunch highlighted that “Competitor Instagram Stories, with 200
24 million daily actives, remains larger than Snap’s entire app, which is further dwarfed
25 by Instagram Direct’s 375 million monthly users and the whole Instagram app’s 700
26 million monthly users.”

27 **E. The Exchange Act Defendants Attempt to Prop Up Snap’s Declining
28 Stock Price With Additional False and Misleading Statements**

173. After Snap reported its disappointing results for the first quarter of 2017,
Defendants falsely assured investors that, despite disappointing quarterly results,
Snap’s user engagement was steadily growing.

174. During a conference call with analysts and investors after the market
closed on May 10, 2017, Spiegel stated that during the first quarter, Snap saw a

1 “significant increase in engagement, with now over 3 billion Snaps created every day
2 with our cameras, generating an increase in overall sessions and time spent.”

3 175. Similarly, Khan stated that the Company was “really excited about the
4 progress we have made increasing engagement across Snapchat,” reiterating that “time
5 spent for our users continues to grow.” Khan touted the fact that “On average, in Q1
6 our users spent over 30 minutes per day on Snapchat.”

7 176. Vollero echoed the Company’s praise for its first quarter, stating that
8 “Growth in new users, engagements, and year-over-year revenues highlighted our first-
9 quarter results.”

10 177. Despite the positive statements issued by the Exchange Act Defendants,
11 analysts pressed Defendants for more specifics about the Company’s stagnant DAU
12 growth, given Defendants’ emphasis on the importance of this user metric in the
13 Registration Statement. For example, Heath Terry, an analyst at Goldman Sachs asked
14 Defendants to “unpack for us a little bit how much of the [DAU] growth came from
15 adding additional users to the platform versus engaging -- increasing engagement on
16 the platform?”

17 178. However, Spiegel deflected questions about the lack of significant DAU
18 growth. In response, Spiegel stated:

19 I think we talk a lot about DAU as an engagement metric. Obviously we
20 provided a couple extra metrics this quarter, like time spent, which is over
21 30 minutes. And obviously an overall increase in sessions on a per user
22 basis, so those are things we’re excited about. And as I mentioned, I think
the more that we can remove friction from this creative process, the more
people want to use our service. And that’s our strategy.

23 179. Spiegel gave a similar non-response to Mark Mahaney, an analyst at RBC
24 Capital Markets, who posed a question about “how to think about DAU growth near-
25 term through the balance of the year.” Spiegel responded:

26 I think the way that we try to help people understand how we think about
27 daily active user growth is really through the lens of creativity and
creation, because we built our entire business on creation. . . . I think the

1 most important thing to understand is that really we think of this daily
2 active user growth as a function or a derivative of the growth in creation.
And so we're really excited about the momentum there.

3 179a. During the call, Spiegel sought to reassure investors that despite Snap's
4 disappointing growth in user engagement, Snap's reported DAU results reflected
5 genuine user engagement, and were not the product of "growth hacking" techniques
6 used by other applications to inflate DAU metrics. Spiegel stated:

7 I'd love to speak a little bit to the DAU question, because it's a question
8 that we get all the time. And I think one of the reasons why it's such a
9 popular question is because there's a lot of this thing in our industry called
10 growth hacking, where you send a lot of push notifications to users, or
you try to get them to do things that might be unnatural or something like
that.

11 And I think while that's the easy way to grow daily actives quickly, we
12 don't think that those sorts of techniques are very sustainable over the
long term. And I think that can ultimately impact our relationship with the
customer.

13 ***

14 So, ultimately, I think the way that we try to help people understand how
15 we think about daily active user growth is really through the lens of
creativity and creation, because we built our entire business on creation.

16 180. Spiegel's new emphasis on "think[ing] about daily active user growth []
17 really through the lens of creativity and creation" and assurances that Snap's DAU
18 numbers, while low, reflected genuine engagement, assuaged investor concerns by
19 concealing the fact that without the rapid growth in user engagement promised in the
20 Registration Statement, Snap's ability to monetize its platform and achieve
21 profitability was impossible.

22 181. The powerful Wall Street banks that had helped take Snap public echoed
23 Spiegel's positive statements regarding Snap's user growth and engagement. For
24 example, Morgan Stanley reiterated its position on Snap stock, maintaining its
25 overweight rating and \$28 price target. In a May 11, 2017 report, Morgan Stanley
26 stated that "1Q didn't bring the post-IPO rev/DAU beat investors were looking for, but
27

1 we remain bullish about SNAP’s rising engagement and the monetization potential of
2 its user base.”

3 182. Goldman Sachs similarly reiterated its \$27 price target on May 11, 2017,
4 stating that Snap’s “audience and engagement represent a unique asset that will benefit
5 from growth and diversification of internet usage and advertiser adoption as both
6 mature.”

7 183. Credit Suisse, despite recognizing “a lower trajectory for DAU growth in
8 [rest of world] geographies,” reaffirmed its \$30 price target in a May 11, 2017 report,
9 stating that “[a]lthough we would certainly have preferred to have seen higher DAUs
10 reported vs. our expectations,” the “long-term investment thesis has not changed.”

11 184. On May 24, 2017, Khan repeated the Exchange Act Defendants’ false
12 assurances to investors during the Company’s presentation at the J.P.Morgan
13 Technology, Media, and Telecom Conference. Khan acknowledged the market’s
14 surprise at the Company’s 1Q2017 results, stating that “we are very pleased with our
15 Q1 performance. Obviously different people have different expectations.”

16 185. Khan continued to tout the Company’s growth in user engagement, stating
17 that “We saw time spent by users on the platform was up sequentially and year-over-
18 year and our average user spent more than 30 minutes on the platform. And so we are
19 very excited by that.”

20 186. Reiterating Spiegel’s recent comments, Khan stated unequivocally that
21 the Company did not engage in any “growth hacking” tactics. Khan stated that “I think
22 the other thing is we don’t do anything to do growth hacking. We don’t spam you all
23 the time to add you as a net user. So our growth is driven by word-of-mouth and new
24 product launches.”

1 part of his prepared remarks, Spiegel stated that “the creativity of our community . . .
2 makes Snapchat so unique. Each one of our daily active users creates over 20 snaps
3 per day, on average, to express themselves and communicate with their friends.”

4 196. The Exchange Act Defendants also sought to manage expectations about
5 Snap’s user growth going forward. Despite the Company never having provided
6 earnings guidance, Vollero stated:

7 As we move forward, we wanted to share some thoughts on the balance
8 of 2017. With respect to the seasonal trajectory of the advertising revenue
9 in the prior year, our Q3 2016 results benefited from demand related to
10 the Summer Olympics and elections. Normalizing for those increases, our
11 revenue grew \$39 million from Q2 2016 to Q3 2016.

12 197. During the call, Richard Scott Greenfield, an analyst with BTIG,
13 challenged Snap’s reported DAU numbers and much-touted user engagement metrics.
14 With respect to DAU, Greenfield asked:

15 Evan, on your first investor call and actually Imran just mentioned earlier
16 as well, you have both spoken about how others use growth hacking to
17 inflate DAU and how it really hurts kind of the platform’s relationship
18 with users. Yet we definitely, over the past quarter, have begun to see
19 push notifications from Snapchat, essentially alerting us to one of our
20 friends or one of our connections has published a story, would you like to
21 go see it. Wondering despite Imran’s comments earlier, has your
22 philosophy on growth hacking begun to change?

23 With respect to user engagement, Greenfield asked:

24 [T]ime spent on Snapchat and Instagram based on the recent comments
25 from Instagram seems like it’s fairly similar. But there’s a very -- my
26 sense is there’s very little direct messaging that happens on Instagram,
27 implying that most of their time spent is actually content consumption.
28 When you think about Snapchat’s 30 minutes of usage per day, how much
of that is actually Stories, including Discover, versus basically
communications?

198. In response to the first question, Spiegel initially stated that “we’ve been
sending notification like that for stories for friends since 2014, so I’m not sure why
you’re just seeing that now.” In response to the second question, Spiegel stated that

1 “We don’t break out Stories versus communication, but I think the important thing is
2 we’ve done a very good job innovating around monetizing communication.”

3 199. However, when challenged to provide more insight into what was truly
4 driving the Company’s reported DAU and user engagement growth, Spiegel admitted
5 that the Company was using push notifications to “growth hack” and boost the
6 Company’s reported user metrics. Greenfield had the following exchange with
7 Spiegel:

8 **Greenfield:** So maybe just be clear. What exactly is the growth hacking
9 that others do? If you sending push communications is not growth
10 hacking, what are others doing that you consider to be growth hacking
and not real DAU growth?

11 **Spiegel:** Yes. I think there are plenty of examples online, if you want to
12 go for a Google. *But I think the most important thing for us is that when*
13 *we’re telling you about content on this service that is really highly*
14 *relevant to you and from your very close friends. And I think people, as*
15 *they become more reliant on push notifications, have sort of relaxed the*
16 *standards there, and I think it’s important for our business.*

17 200. Market commentary attributed Snap’s disappointing DAU growth to
18 competition from Facebook, and attributed the decline in Snap’s stock price to Snap’s
19 disappointing user engagement metrics. For example, on August 10, 2017, *Fortune*
20 reported that “Snap Inc. reported a lower-than-expected number of daily active users
21 for Snapchat, its popular messaging app, for the second quarter as the company
22 grapples with stiff competition from Facebook . . . sending its shares down about 6%
23 in extended trading.” Similarly, *Business Insider* reported that “The number of daily
24 Snapchat users only increased by 7 million from the first quarter; analysts were
25 expecting that number to go up by 10 million.”

26 201. Analysts reached the same conclusion. For example, Morningstar
27 reported on August 10, 2017 that “Snap’s second quarter was yet again disappointing,”
28 as “the daily average user growth came in below expectations.” The report concluded
that “[w]hile Snap is making headway into further monetizing its user base, we still

1 believe lack of robust growth in the firm’s overall user base weakens the sustainability
2 of any network effect.”

3 202. In the wake of Snap’s second consecutive quarter failing to deliver on its
4 promises of growing user engagement and the supposed steady stream of new
5 advertisers eager to invest in its platform, market analysts uniformly lowered their price
6 targets, including those associated with the IPO’s underwriters. For example, in an
7 August 11, 2017 report, Credit Suisse lowered its price target from \$25 to \$17, stating
8 that “Our estimates reset lower in the near-term, as we along with the Street will
9 interpret management’s commentary around Olympics and Election-driven
10 accentuated seasonality for 3Q16 as a move to manage expectations.”

11 203. Barclays, which had previously reduced its price target to \$18 from \$24
12 on May 11, 2017 following Snap’s 1Q results, lowered its price target an additional
13 28% to \$13 on August 11, 2017, stating that user engagement was proceeding at a
14 “lower pace than direct peers (and Snap’s 1H16 cadence).”

15 204. J.P.Morgan likewise reduced its price target from \$18 to \$16, stating that
16 they “remain[ed] Neutral given increased competition from FB and Instagram.”

17 **I. Post-Class Period Developments**

18 205. During Snap’s third quarter as a public company, additional revelations
19 emerged concerning the false impressions of the Company’s user growth and
20 engagement it fostered at the time of its IPO.

21 206. As the bottom fell out from Snap’s stock, Morgan Stanley lowered its
22 price target *again* on August 22, 2017, this time to \$14. Once again, Morgan Stanley
23 waited to drop the bombshell until after the Company had reported its disappointing
24 results. In support of its new valuation, Morgan Stanley concluded that “we believe
25 Snap’s core ad product is still lacking the performance (low click-through rates),
26 measurability, and advertising ROI to inflect ad dollar growth. . . . [and] in our view,
27

1 2Q results speak to how it may take longer for the ad product (as currently structured)
2 to improve than previously believed.”

3 207. In a similar move, on September 11, 2017, Deutsche Bank downgraded
4 shares of Snap from Buy to Hold “after mixed ad checks lead us to reduce our 2H
5 estimates and PT to \$17 (from \$20).” The report noted that Deutsche Bank was
6 “tak[ing] a more conservative view of DAU growth (4.5M net adds in 3Q) reflecting
7 seasonality.” On September 25, 2017, J.P.Morgan lowered its price target an additional
8 \$2 to \$14, citing “mixed sentiment from our advertiser checks” and that “Instagram
9 Stories ads continue to gain strong traction relative to Snap Ads given the greater scale
10 of Instagram, and Facebook’s ad platform.”

11 208. On September 25, 2017, *TechCrunch* reported that Instagram had grown
12 to 500 million DAU. The reported noted that “[d]espite the social network’s huge user
13 population, its growth isn’t slowing down,” and that “time spent by users viewing video
14 on Instagram is up over 80 percent year over year.” The report concluded:

15 These stats are encouraging for anyone investing in Instagram as a
16 platform, and for Facebook’s larger ambitions. But they’re likely
17 discouraging to Snapchat, one of Instagram’s main rivals for user
18 attention. Instagram’s skyrocketing growth has come as the company
copied and implemented a number of Snapchat product experiences,
including Stories

19 209. On October 2, 2017, eMarketer lowered its full-year revenue
20 expectations for Snap by \$127.5 million, or approximately 16.5%, below any of the
21 most bearish estimates by Wall Street analysts. eMarketer cited slower than expected
22 user growth and poor sentiment among advertisers as the basis for its reduction in
23 revenue expectations. Notably, in July 2016, before the launch of Instagram Stories,
24 eMarketer had forecast Snap’s 2017 revenue at \$805 million. eMarketer concluded
25 that despite being a public company for seven months, Snapchat “remains in the
26 experimental bucket for many marketers,” with many advertisers citing poor returns
27 on their ad dollars.

1 210. As Snap continued to sputter, Spiegel publicly acknowledged that Snap
2 had failed to effectively communicate with its investors. At a rare public appearance
3 on October 3, 2017 at Vanity Fair’s New Establishment Summit in Beverly Hills,
4 Spiegel stated:

5 Going public was really the right thing for the company, and certainly the
6 right thing at the time. . . . One of the things I did underestimate was how
7 much more important communication becomes . . . When you go public
8 you need to explain to a huge new investor base . . . how your business
9 works.

10 211. Additional details regarding Snap’s stagnant growth emerged on October
11 20, 2017, when it was widely reported that Snap had announced internally that it would
12 slow its hiring rate in 2018. Company insiders revealed that Snap had laid off eighteen
13 employees in its recruiting division. It was also reported that Spiegel had sent an
14 internal email to Snap employees informing them that the Company would slow its
15 hiring rate in 2018 and that managers would be asked to make “hard decisions” in order
16 to reduce the Company’s workforce.

17 **VII. ADDITIONAL ALLEGATIONS OF SCIENTER**

18 212. As alleged herein, the Exchange Act Defendants made materially false
19 and misleading statements and failed to disclose material facts concerning: (i) Snap’s
20 user growth and engagement, by minimizing the known adverse impact of competition
21 from Instagram’s Stories; (ii) the restatement of Snap’s 2015 daily user metrics, by
22 failing to disclose Pompliano’s detailed, credible allegations regarding Defendants’
23 knowing misrepresentation of its user engagement metrics and severe internal controls
24 deficiencies; and (iii) falsely asserting that Snap did not employ “growth hacking”
25 strategies to inflate user growth.

26 213. In addition to the allegations set forth in Sections V, VI, and VIII,
27 numerous additional facts give rise to a strong inference that, throughout the Class
28

1 Period, the Exchange Act Defendants knew or recklessly disregarded that their
2 statements were materially false and misleading when made.

3 214. The Executive Defendants, by virtue of their positions with Snap, were
4 responsible for, and remained well informed of, issues critical to the Company's
5 success. As Snap stated in the Registration Statement, "we view Daily Active Users
6 as a critical measure of our user engagement. Adding, maintaining, and engaging Daily
7 Active Users have been and will continue to be necessary." Snap's user engagement
8 metrics were therefore critical to the Company's core operations.

9 215. As would be revealed after the IPO, Facebook's strategy of replicating
10 Snapchat's most popular features on its Instagram platform had an immediate and
11 dramatic impact on Snapchat's user growth and engagement.

12 216. The Executive Defendants would have had direct evidence of the impact
13 on Snap's user growth and engagement following the introduction of Instagram's
14 Stories feature. These issues were specifically raised with the Executive Defendants
15 prior to the IPO in numerous contexts including in the form of a company-wide town
16 hall in which Defendant Spiegel was confronted with widespread sentiment from
17 Snap's sales team about challenges competing with Instagram. Spiegel reportedly
18 dismissed the concerns of his subordinates.

19 217. Former employees confirm that, prior to the IPO, Snap senior
20 management prepared a company-wide memorandum on the topic of Instagram's
21 competition with Facebook which former employees have characterized as "cocky"
22 and "dismissive" of the concerns that employees and advertisers had expressed.

23 218. Moreover, the Exchange Act Defendants' own statements confirm that
24 they paid particularly close attention to Snap's user engagement metrics while
25 simultaneously minimizing the significance of Snap's slowing user growth. For
26 example, during the IPO roadshow, Spiegel reportedly brushed aside concerns of
27 slowing user growth while touting the strength of Snap's user engagement.

1 219. Therefore, Defendants’ positive statements regarding Snap’s user growth
2 and engagement and explanations for the decline in Snap’s user growth prior to the
3 IPO were knowingly false when made.

4 220. Defendants’ knowledge of the falsity of their statements regarding Snap’s
5 purportedly authentic user growth and engagement can be inferred from the fact that
6 soon after Defendants made these statements, the Company reversed course and
7 disclosed that the Company’s disappointing DAU numbers were in fact partly inflated
8 by “growth hacking” techniques. During the May 10, 2017 conference call, Spiegel
9 represented that the Company was “really excited about the momentum” with its DAU
10 growth, and represented that the Company’s user growth was “a function or a
11 derivative of the growth in creation” and not the product of “growth hacking, where
12 you send a lot of push notifications to users or you try to get them to do things that
13 might be unnatural or something like that.” Similarly, on May 24, 2017, Khan
14 represented that “we don’t do anything to do growth hacking.”

15 221. However, Spiegel admitted on August 10, 2017 that a portion of Snap’s
16 DAU growth was in fact driven by increasing use of push notifications to get users to
17 use the Snapchat application, stating that “as [people] become more reliant on push
18 notifications, have sort of relaxed the standards there, and I think it’s important for our
19 business.”

20 222. With respect to Defendants’ failure to disclose Pompliano’s allegations,
21 Defendants’ knowledge of Pompliano’s allegations can be inferred the fact that Snap
22 was named as a defendant in Pompliano’s California complaint, filed before the IPO,
23 in which Pompliano alleges that he personally informed Spiegel and Khan of the results
24 of his investigation into the unreliability of Snap’s user engagement metrics and its
25 lack of internal controls over user engagement data. Moreover, Pompliano alleges that
26 Vollero admitted to him that the metrics Snapchat had been using were wrong, and that
27 the Company’s representations were inaccurate and should be corrected. As
28

1 Pompliano alleges, as a result of presenting these results and insisting that Snap stop
2 misrepresenting its user metrics, Snap executives conspired to have him unjustly
3 terminated, confirming Defendants’ knowledge of his allegations.

4 223. Defendants’ knowledge of the materiality of Pompliano’s allegations can
5 also be inferred from the fact that, despite denying Pompliano’s allegations prior to the
6 IPO, stating that they “ha[d] no merit” and were “totally made up by a disgruntled
7 former employee,” the Registration Statement corroborated one of Pompliano’s core
8 allegations, not publicly available at the time of the IPO: Snap had been forced to
9 restate its historical DAU numbers due to its reliance on third party measurement
10 applications it knew to be false. As the Company disclosed in the Registration
11 Statement that “Substantially all of [Snap’s] revenue comes from advertising” and
12 “*real or perceived inaccuracies* in [user engagement] metrics may seriously harm and
13 negatively affect our reputation and our business” due to changes in “advertiser
14 perception of the value of our products that change the rates we can charge for
15 advertising or the volume of advertising on Snapchat.”

16 224. The fact that the Registration Statement specifically disclosed two
17 immaterial lawsuits, including a dismissed personal injury lawsuit, in its discussion of
18 “Pending Matters” highlights the materiality of the Exchange Act Defendants’
19 knowing omission of Pompliano’s allegations.

20 225. Finally, Spiegel and Murphy had the motive and opportunity to engage in
21 the wrongful conduct described herein, as evidenced by the fact that Spiegel and
22 Murphy each sold 16 million shares in the IPO, generating each Defendant \$272
23 million in proceeds.

1 **VIII. EXCHANGE ACT DEFENDANTS' MATERIALLY FALSE AND**
2 **MISLEADING STATEMENTS AND OMISSIONS OF MATERIAL**
3 **FACT**

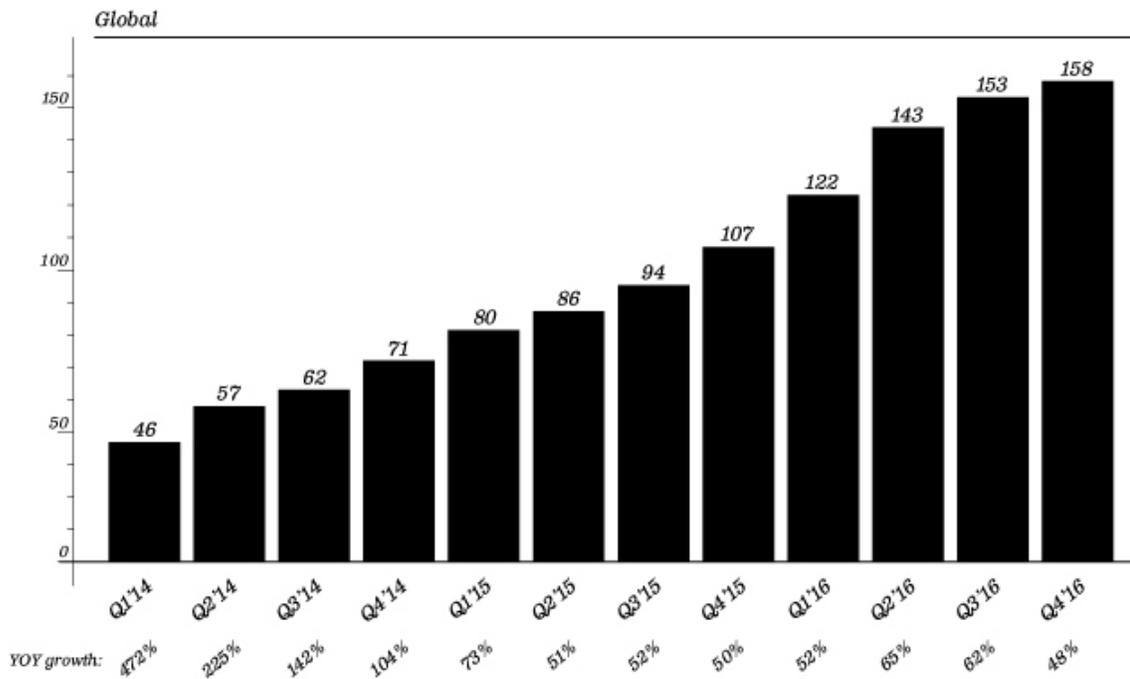
4 226. As alleged herein, the Exchange Act Defendants issued three categories
5 of false and misleading statements and omissions of material fact during the Class
6 Period. In the Registration Statement, the Exchange Act Defendants made materially
7 false and misleading statements concerning Snap's user growth and engagement by
8 minimizing the known adverse impact that Instagram's clone Stories function was
9 having on Snap's user growth and engagement. Second, the Exchange Act Defendants
10 made materially false and misleading statements concerning the restatement of its 2015
11 daily user metrics by failing to disclose Pompliano's detailed, credible allegations
12 regarding Defendants' knowing misrepresentation of its user engagement metrics and
13 severe internal controls deficiencies. Additionally, the Exchange Act Defendants
14 violated ASC 450 by failing to disclose the Pompliano complaint and describing the
15 nature of his claims. Third, following the IPO, Defendants misled investors regarding
16 their user engagement by falsely asserting that Snap did not employ "growth hacking"
17 strategies to drive user growth.

18 **A. Snap's Registration Statement**

19 **1. The Registration Statement Contained Materially False and**
20 **Misleading Statements Regarding Snap's User Growth and**
21 **Engagement**

22 227. The single most important metric that Snap's Registration Statement
23 touted was its daily active users and the trends associated with this metric. The
24 following chart appeared on page 72 of the Registration Statement:
25
26
27
28

Quarterly Average Daily Active Users ⁽¹⁾
(in millions)



228. With regard to the trends relating to DAU, Snap disclosed that “[t]he rate of net additional Daily Active Users was relatively flat in the early part of the quarter ended December 31, 2016” but also claimed that this flatness could be attributed to the fact the Company “*historically experienced lumpiness in the growth of our Daily Active Users.*” Snap also noted that DAU growth “*accelerated in the month of December.*”

229. The Registration Statement attributed the relatively flat DAU growth in the 4Q 2016 as being “*primarily related to accelerated growth in user engagement earlier in the year.*”

230. According to the Registration Statement: “The rate of net additional Daily Active Users accelerated in the first half of 2016 compared to the second half of 2015, largely due to increased user engagement from product launches and increased adoption rates among older demographics.” Snap explained that “[t]his created a *higher baseline of Daily Active Users* heading into the third and fourth quarters, so

1 *incremental net additions within these quarters were more difficult even with strong*
2 *year-over-year growth.”*

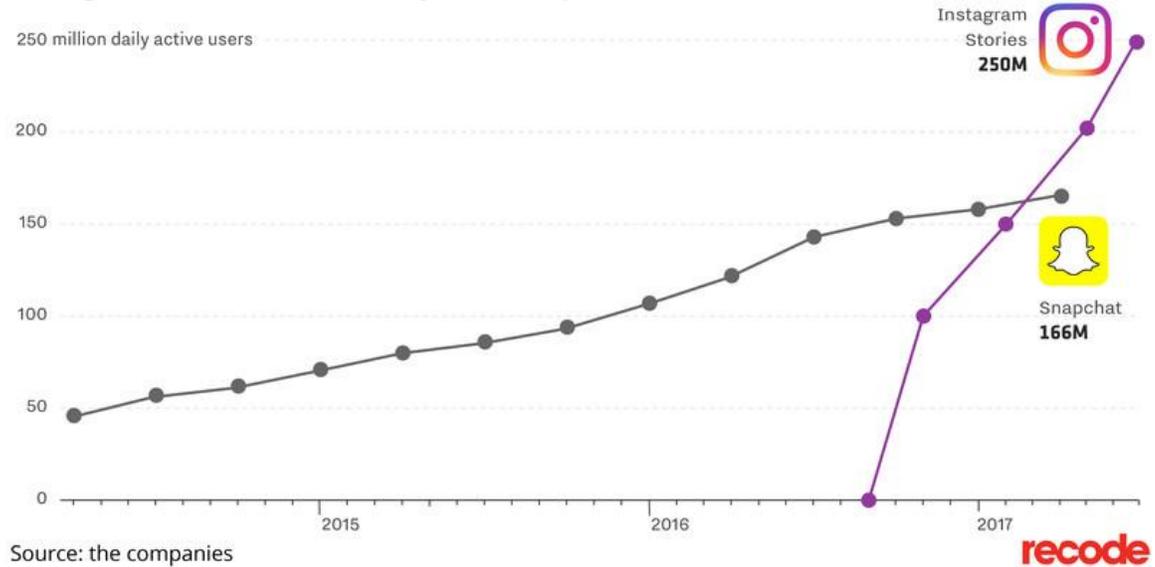
3 231. The only disclosure that Snap made regarding any impact from
4 Facebook’s Instagram was the following: “Instagram, a subsidiary of Facebook,
5 recently introduced a ‘stories’ feature that largely mimics our Stories feature and *may*
6 *be directly competitive.*” In effect, the Registration Statement operated as a direct
7 rebuttal of any speculation that Facebook’s Instagram was having a negative impact on
8 Snap’s DAU and user engagement.

9 232. The statements in ¶¶227-31 were materially false and misleading when
10 made because the Exchange Act Defendants misrepresented and failed to disclose the
11 following:

- 12 a. Instagram’s launch of its clone “Stories” function had resulted in a
13 dramatic decline in Snap’s user growth. As reflected in a chart of
14 Instagram’s growth compared to Snapchat’s following the launch of
15 Stories on Instagram, Snap’s flat growth coincided with an exponential
16 growth in its chief competitor’s popularity:

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Instagram Stories versus Snapchat daily active users



- b. Snap’s senior management was directly informed by the Company’s sales staff that Snap was losing advertisers to Instagram and Snap was losing market share. According to FE 1, in response to widespread concern raised by Snap’s employees, Snap distributed a company-wide memo addressing Instagram’s growth relative to Snap that attempted to deflect widespread fears among Snap employees about Instagram’s impact.
- c. FE 2 revealed that in January 2017, Snap held a company-wide meeting during which numerous employees expressed concerns to Spiegel and other Snap senior executives about Snap’s ability to compete with Instagram. FE 2 described Spiegel’s response as dismissive, telling employees to simply execute on Snap’s business plans despite competition. However, FE 2 revealed Snap’s advertising customers consistently expressed concerns about the value of investing in Snap as compared to Facebook or Instagram, and that the

1 introduction of competing features on Instagram, such as Stories, only
2 amplified these concerns. As a result of such concerns, FE 2 revealed
3 that Snap’s internal projections and assumptions about their ability to
4 grow and monetize their platform lacked a reasonable basis.

5 d. Confirming these witness accounts, an August 2017 report revealed
6 that at the time of the IPO, there was widespread anxiety within the
7 Company about its ability to continue to add new users in the face of
8 competition with Instagram. The report described a rare Q&A session
9 with Spiegel in which Spiegel received a dozen questions about the
10 impact of competition from Instagram on Snap’s user growth. In
11 response, Spiegel reportedly dismissed the concerns of his employees.

12 233. Snap’s statements in the IPO had the intended effect of discounting any
13 speculation about the potential impact of competition by Instagram and created a
14 materially false impression that Snap’s historical growth rate in active users was not
15 being directly impacted by competition from Instagram.

16 234. For example, in reporting on the Registration Statement, *Business Insider*
17 noted Snap’s explanation for the slowdown in user growth as not being the product of
18 competition from Facebook: “[The Registration Statement] says the slowdown in user
19 growth it suffered in the second half of 2016 is because of bad product updates — and
20 not necessarily an increase in competition.”

21 235. Moreover, several of the major Wall Street investment banks that
22 underwrote Snap’s IPO issued analyst reports with target prices well in excess of the
23 IPO valuation based on the information disclosed in the Registration Statement. In
24 support of these valuations, these analysts cited to the Company’s false assurances
25 regarding their competition. For example, on March 27, 2017, Deutsche Bank initiated
26 coverage with a “Buy” recommendation, setting a \$30 price target, noting that “several
27

1 key investor concerns” such as the Company’s current lack of profitability and the
2 threat of competition, were “overblown.”

3 **2. The Registration Statement Contained Materially False and**
4 **Misleading Statements about Snap’s Restatement of its DAU**
5 **Numbers and the Risk of Inaccurate User Metrics**

6 236. Snap’s failure to disclose Pompliano’s detailed, credible allegations
7 regarding the unreliable nature of Snap’s user engagement metrics rendered their
8 disclosures regarding the restatement of Snap’s historical DAU numbers and the risk
9 of inaccurate user metrics incomplete and misleading. Snap’s omission of Pompliano’s
10 allegations and the ongoing controversy surrounding the reliability of Snap’s user
11 engagement metrics rendered their discussion of the risks posed to Snap due to a
12 change in advertisers’ perception of the business materially misleading. Regardless of
13 the veracity of Pompliano’s claims, even the prospect of his credible allegations
14 leaking out posed a material threat to Snap’s fledgling advertising business.

15 237. Indeed, the Registration Statement emphasized the importance of the
16 reliability of Snap’s user metrics, stating that “*real or perceived inaccuracies* in [user]
17 metrics may seriously harm and negatively affect our reputation and our business.”
18 Snap warned investors:

19 If advertisers, partners, or investors do not perceive our user, geographic,
20 or other demographic metrics to be accurate representations of our user
21 base, or if we discover material inaccuracies in our user, geographic, or
22 other demographic metrics, our reputation may be seriously harmed.

23 238. Despite acknowledging the material risk posed by perceived inaccuracies
24 in the reliability of Snap’s user metrics, the full extent of the Company’s disclosures
25 as it related to the historical reliability of its user metrics was limited to the following:

26 In the past we have relied on third-party analytics providers to calculate
27 our metrics, but today we rely primarily on our analytics platform that we
28 developed and operate. For example, before June 2015, we used a third
party that counted a Daily Active User when the application was opened
or a notification was received via the application on any device. We now
use an analytics platform that we developed and operate and we count a

1 Daily Active User only when a user opens the application and only once
2 per user per day. We believe this methodology more accurately measures
3 our user engagement. Additionally, to align our pre-June 2015 Daily
4 Active Users with this new methodology, we reduced our pre-June 2015
5 Daily Active Users by 4.8%, the amount by which we estimated the data
6 generated by the third party was overstated. Since this adjustment is an
7 estimate, the actual pre-June 2015 Daily Active Users may be higher or
8 lower than our reported numbers. As a result, our metrics may not be
9 comparable to prior periods.

6 239. As commentators noted when Pompliano's allegations were revealed to
7 the market, the Registration Statement corroborated one of Pompliano's core
8 allegations: Snap had been forced to restate its historical DAU numbers due to its
9 reliance on third party measurement applications it knew to be false. For example, on
10 April 13, 2017, *Fortune* magazine reported that "investors have reason to pay
11 attention" because, despite the Company's claims that it had nothing to hide, "the
12 unsealed lawsuit contains some key statistics that Snapchat has never before disclosed,
13 not even to investors." The article noted that while Snap contended that Pompliano
14 was "'fired for poor performance,' he was right about one important thing: Around the
15 time Snap began selling ads on the platform, Snapchat was not as popular as most
16 people thought it was." The article continued that "Snap does not dispute is that the
17 discrepancy underlying Pompliano's argument actually existed." The article
18 concluded that "*[f]or investors, though, whether or not Snap exaggerated the user
19 number matters less at this point than the fact that Pompliano's lower number turned
20 out to be right.*"

21 240. Therefore, Snap's failure to fully disclose Pompliano's allegations and the
22 reason for the restatement of Snap's 2015 DAU numbers constituted a material
23 omission that rendered the Registration Statement materially misleading. The
24 Registration Statement's description of the risks to the Company's advertising business
25 from real or perceived inaccuracies in user metrics as potential and non-specific events
26 that might hypothetically occur in the future gave investors a false and misleading
27

1 impression of the specific risks facing the Company, thereby rendering the foregoing
2 purported risks a then-concealed reality.

3 **3. The Registration Statement Failed to Disclose Pompliano’s**
4 **Allegations that Snap’s User Metrics were Unreliable, a**
5 **Material Omission and Violation of ASC 450**

6 241. The Registration Statement’s failure to disclose the fact of Pompliano’s
7 whistleblower suit and its allegations relating to the accuracy and integrity of Snap’s
8 user metrics was a material omission. The Registration Statement emphasized the
9 importance of lawsuits to the Company by disclosing to potential investors that “[f]rom
10 time to time, we are involved in class-action lawsuits and other litigation matters that
11 are expensive and time-consuming. If resolved adversely, lawsuits and other litigation
12 matters could seriously harm our business.” In particular, the Registration Statement
13 explained:

14 Any such negative outcome could result in payments of substantial
15 monetary damages or fines, or changes to our products or business
16 practices, and accordingly our business could be seriously harmed.
17 Although the results of lawsuits and claims cannot be predicted with
18 certainty, we do not believe that the final outcome of those matters that
19 we currently face will seriously harm our business.

20 242. Highlighting the significance of lawsuits to the Company, the Registration
21 Statement specifically disclosed in a section of the Registration Statement titled,
22 “Pending Matters,” two lawsuits. The first disclosed lawsuit was brought in September
23 2015 and involved a claim that the defendants improperly used the plaintiff’s image.
24 The second was a personal injury lawsuit filed in April 2016 which had been dismissed.
25 Despite these disclosures, the Registration Statement failed to disclose the existence
26 and substance of Pompliano’s claims against the Company—which, at the time of the
27 IPO, had been filed under seal.

28 243. As set forth above, Pompliano’s complaint alleged a systemic failure in
Snapchat’s internal controls and computation of critical user metrics, and alleged that

1 these problems persisted until the IPO. More specifically, Pompliano claimed that
2 Snap’s user data was unreliable and inaccurate, and claimed that Snap had misled
3 advertisers and investors.

4 244. Undisclosed to investors, the Registration Statement *confirmed* one of
5 Pompliano’s core allegations. This fact would only be revealed *after* the IPO, when it
6 was reported that, despite the Company’s claims that Pompliano’s allegation “ha[d] no
7 merit” and were “totally made up,” the Registration Statement confirmed that due to
8 unreliable measurements, Snap had been forced to restate its historical user metric data.

9 245. Given the material risk posed by “*real or perceived inaccuracies in [user]*
10 *metrics*,” which the Registration Statement admitted “may seriously harm and
11 negatively affect [Snap’s] reputation and [] business,” Defendants had a duty to
12 disclose Pompliano’s action and the nature of his claims under General Accepted
13 Accounting Principles (“GAAP”). Specifically, under Accounting Standards
14 Codification Topic 450 (“ASC 450”), which governs the disclosure and accrual of
15 contingencies by public companies in their periodic reports and registration statements
16 filed with the SEC, if the likelihood of a material loss is “reasonably possible,” i.e.,
17 more likely than remote, but less likely than probable, and the amount of the reasonably
18 possible loss is estimable, then a company must disclose the nature of the contingency
19 and also provide its estimate of the amount or range of loss. If the reasonably possible
20 loss is not estimable, then a company must disclose the nature of the contingency and
21 describe why it is unable to estimate the amount of the loss.

22 246. ASC 450-20 provides examples of loss contingencies covered by ASC
23 450 and, as pertinent here, specifically includes “litigation, claims, and assessments.”
24 At minimum, ASC 450-20-55-13 provides that a loss contingency involving a filed
25 claim must be disclosed if there is a reasonable possibility that the outcome will be
26 unfavorable. Thus, in cases where the filed claim has not yet been resolved, but an
27 unfavorable outcome is reasonably possible, ASC 450 requires an issuer to disclose the
28

1 nature of the contingency and any amount of loss that is reasonably possible. ASC-
2 450-20-55-31. Here, in failing to disclose the Pompliano lawsuit and the nature of the
3 claims, Snap violated ASC-450.

4 247. Under ASC 450, Snap’s failure to disclose Pompliano’s complaint in its
5 discussion of litigation-related risks facing the Company was a material omission.
6 Given that, according to the Registration Statement, “*real or perceived inaccuracies*
7 in [Snap’s user] metrics may seriously harm and negatively affect our reputation and
8 our business,” Pompliano’s allegations posed a risk of material loss that was at least
9 reasonably probable, regardless of whether Snap disputed Pompliano’s claims.

10 248. Moreover, California Labor Code § 1054, pursuant to which Pompliano
11 brought his initial complaint, provides for treble damages. In addition to such
12 damages, Pompliano sought punitive damages for his alleged wrongful termination.
13 Given that at the time of IPO, Snap was losing money, the likelihood of a material loss
14 as a result of his complaint was “reasonably possible.” Therefore, the Exchange Act
15 Defendants violated ASC 450 by failing to disclose the fact of Pompliano’s complaint.

16 **B. May 10, 2017 Conference Call**

17 249. On May 10, 2017, after the Company reported disappointing DAU growth
18 of only 5% quarter-over-quarter, Defendants falsely assured investors that despite
19 disappointing quarterly results, Snap’s user engagement was steadily growing. For
20 example, during a conference call with analysts and investors on this date, Spiegel
21 stated that during the first quarter, Snap saw a “significant increase in engagement,
22 with now over 3 billion Snaps created every day with our cameras, generating an
23 increase in overall sessions and time spent.” Similarly, Khan touted the purported fact
24 that “time spent for our users continues to grow,” claiming that “On average, in Q1 our
25 users spent over 30 minutes per day on Snapchat.”
26
27

1 250. In an effort to distract investors from Snap’s disappointing DAU numbers,
2 Spiegel attempted to redefine the Company’s much-touted DAU number, claiming that
3 the Company was more focused on the quality of user engagement than on absolute
4 growth in users:

5 I think the way that we try to help people understand how we think about
6 daily active user growth is really through the lens of creativity and
7 creation, because we built our entire business on creation. . . . I think the
8 most important thing to understand is that really we think of this daily
active user growth as a function or a derivative of the growth in creation.
And so we’re really excited about the momentum there.

9 251. Moreover, Spiegel sought to reassure investors by dispelling any concern
10 that Snap’s reported DAU numbers were inflated by so-called “growth hacking”
11 techniques used by other applications, and reflected only genuine engagement:

12 I’d love to speak a little bit to the DAU question, because it’s a question
13 that we get all the time. And I think one of the reasons why it’s such a
14 popular question is because there’s a lot of this thing in our industry called
growth hacking, where you send a lot of push notifications to users or you
try to get them to do things that might be unnatural or something like that.

15 And I think while that’s the easy way to grow daily actives quickly, we
16 don’t think that those sorts of techniques are very sustainable over the
17 long term. And I think that can ultimately impact our relationship with the
customer.

18 252. The statements in ¶¶249-51 were materially false and misleading when
19 made because for the reasons set forth in ¶232 above, the Exchange Act Defendants
20 knew, but failed to disclose the fact that Snapchat had experienced a dramatic decline
21 in user growth and engagement due to the launch of Instagram’s clone Stories, which
22 mimicked Snapchat’s most popular features and was therefore directly competitive.
23 The adverse trend on Snap’s user growth and engagement caused by Instagram’s
24 Stories was ongoing at the time the Exchange Act Defendants made the foregoing false
25 and misleading statements.

26 253. In addition, the Exchange Act Defendants’ statements claiming that
27 Snap’s DAU numbers were not inflated through “growth hacking” techniques were
28

1 false and misleading because, as Spiegel admitted on August 10, 2017, a portion of
2 Snap’s DAU growth was driven by increasing use of push notifications to get users to
3 use the Snapchat application. Spiegel defended Snap’s practice by stating that “as
4 [people] become more reliant on push notifications, have sort of relaxed the standards
5 there, and I think it’s important for our business.”

6 254. The Exchange Act Defendants’ false assurances regarding Snap’s user
7 growth and engagement had the intended effect, as reflected in market commentary
8 following the May 10, 2017 conference call. For example, Morgan Stanley noted that
9 “1Q didn’t bring the post-IPO rev/DAU beat investors were looking for, but we remain
10 bullish about SNAP’s rising engagement and the monetization potential of its user
11 base. We are buyers on weakness.” Similarly, S&P Global projected “significant
12 growth opportunities as SNAP focuses on expansion and monetization, and we think
13 the company is poised to take notable market share in global mobile advertising.” With
14 respect to the threat of competition, S&P reiterated the Registration Statements
15 qualified risk disclosure, noting that Facebook had “developed offerings/features
16 similar to SNAP’s, *perhaps* detracting from user/ engagement/revenue growth.”

17 **C. May 24, 2017 J.P.Morgan Conference**

18 255. On May 24, 2017, Khan repeated the Exchange Act Defendants’ false
19 assurances regarding the strength of Snap’s user growth and engagement to investors
20 during the Company’s presentation at the J.P.Morgan Technology, Media, and
21 Telecom Conference.

22 256. As part of his prepared remarks, Khan touted the Company’s growth in
23 user engagement, stating that “We saw time spent by users on the platform was up
24 sequentially and year-over-year and our average user spent more than 30 minutes on
25 the platform.”
26
27

1 257. Reiterating Spiegel’s false representations about the quality of Snap’s user
2 engagement, Khan stated unequivocally that the Company did not engage in any
3 “growth hacking” tactics. Khan stated that “I think the other thing is we don’t do
4 anything to do growth hacking. We don’t spam you all the time to add you as a net
5 user. So our growth is driven by word-of-mouth and new product launches.”

6 258. The statements in ¶¶256-57 were materially false and misleading when
7 made because for the reasons set forth in ¶232 above, the Exchange Act Defendants
8 knew, but failed to disclose the fact that Snapchat had experienced a dramatic decline
9 in user growth and engagement due to the launch of Instagram’s clone Stories, which
10 mimicked Snapchat’s most popular features and was therefore directly competitive.
11 The adverse trend on Snap’s user growth and engagement caused by Instagram’s
12 Stories was ongoing at the time the Exchange Act Defendants made the foregoing false
13 and misleading statements.

14 259. In addition, Defendants statements claiming that Snap’s DAU numbers
15 were not inflated through “growth hacking” techniques were false and misleading
16 because, as Spiegel admitted on August 10, 2017, a portion of Snap’s DAU growth
17 was driven by the increasing use of push notifications to get users to use the Snapchat
18 application. Spiegel defended Snap’s practice by stating that “as [people] become
19 more reliant on push notifications, have sort of relaxed the standards there, and I think
20 it’s important for our business.”

21 260. Following the Company’s statements touting its user growth and the
22 purported authenticity of its reported DAU numbers, J.P.Morgan reported on May 24,
23 2017 that user engagement was one of the “Key Takeaways” from Khan’s presentation,
24 noting that “Snap highlighted the continued strong engagement seen in 1Q” and that
25 “North America, where Snap is highly focused, continues to be strong.”
26
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1 **IX. LOSS CAUSATION**

2 261. As alleged herein, Defendants engaged in a scheme to deceive investors
3 during the Class Period by misrepresenting and omitting material facts concerning: (i)
4 Snap’s user growth and engagement, by minimizing the known adverse impact of
5 competition from Instagram’s Stories; (ii) Pompliano’s complaint and the nature of his
6 allegations, including that his complaint alleged the need to restate of Snap’s 2015
7 DAU metrics; and (iii) falsely asserting that Snap did not employ “growth hacking”
8 strategies to inflate user growth. Defendants’ materially false or misleading statements
9 and omissions of material fact, alleged above in Section VIII, caused the price of Snap
10 common stock to be artificially inflated, and/or maintained such artificial inflation
11 during the Class Period, operating as a fraud or deceit upon Plaintiffs and other Class
12 Period purchasers of Snap common stock.

13 262. Relying upon the integrity of the market price for Snap common stock and
14 public information relating to the Company, Plaintiffs and other Class members
15 purchased or otherwise acquired Snap common stock at prices that incorporated and
16 reflected the Exchange Act Defendants’ misrepresentations and omissions of material
17 fact alleged herein. Had the Exchange Act Defendants been truthful about these
18 matters during the Class Period, Plaintiffs and other Class members would not have
19 purchased or otherwise acquired their Snap common stock at the artificially inflated
20 prices at which it traded.

21 263. Plaintiffs and other Class members suffered actual economic loss and
22 were damaged when the trading price of Snap common stock declined upon the public
23 disclosure of new information correcting the Exchange Act Defendants’ alleged
24 misrepresentations regarding Snap’s user growth and engagement, Pompliano’s
25 allegations regarding the Exchange Act Defendants’ knowing misrepresentation of
26 Snap’s user engagement metrics, and the Exchange Act Defendants’ use of “growth
27 hacking” to inflate Snap’s user engagement metrics. These revelations occurred
28

1 through at least five partial corrective disclosures: April 4, 2017, May 10, 2017, June
2 7-8, 2017, July 11, 2017, and August 10, 2017.

3 264. As alleged above in ¶¶135-204 and in this Section, these partial corrective
4 disclosures of the Exchange Act Defendants' fraud caused foreseeable declines in the
5 price of Snap common stock by removing portions of the artificial inflation in the price
6 of Snap common stock that resulted from the Exchange Act Defendants' fraud. The
7 timing and magnitude of the declines in the price of Snap common stock in response
8 to the public disclosure of new, Company-specific news on each of the days alleged
9 herein negate any inference that the losses suffered by Plaintiffs and other Class
10 members were caused by changed market conditions or other macroeconomic factors
11 unrelated to the Exchange Act Defendants' fraud.

12 265. As alleged in ¶¶161-67 above, on April 4, 2017, new details concerning
13 Pompliano's allegations against Snap emerged. On this date, it was reported by
14 *Business Insider* that "[c]urrently redacted portions of Pompliano's lawsuit contain
15 user metrics that he claims are different from what Snap told investors and the press
16 ahead of its February IPO." This disclosure partially (but incompletely) revealed some
17 of the relevant truth concealed and/or obscured by the Exchange Act Defendants' prior
18 misstatements and omissions regarding Snap's internal controls over user engagement
19 data. Furthermore, this partial disclosure was a foreseeable consequence of the
20 Exchange Act Defendants' omissions of material facts concerning Pompliano's
21 allegations and the resultant risk that advertisers would perceive Snap's user
22 engagement metrics as unreliable.

23 266. As a direct and proximate result of this partial corrective disclosure of
24 Defendants' fraud, the price of Snap's common stock fell approximately 7.3%, from a
25 close of \$22.35 per share on April 3, 2017 to close at \$20.70 per share on April 5, 2017,
26 on heavy trading volume, thereby removing a portion of the artificial inflation in the
27 price of Snap common stock.

1 267. Market commentators specifically attributed the subsequent decline in
2 Snap’s stock to the revelation of this news. For example, citing Pompliano’s
3 allegations that “Snap’s outsized valuation is built on a house of cards” that has been
4 “systematically built through a coordinated effort from Snap’s executives to personally
5 reward themselves with billions of dollars by maliciously manipulating metrics,
6 suppressing metrics that put the company in a negative light, and even, at times,
7 blatantly misleading professional investors, employees, advertisers, and now, retail
8 investors,” *Business Insider* reported on April 5, 2017 that “Snapchat’s stock price is
9 diving on Wednesday, down 4.29%.

10 268. As alleged in ¶¶168-72 above, on May 10, 2017, Snap announced that its
11 DAUs increased only 5% quarter-over-quarter, from 158 million in Q4 2016. The
12 disclosure of Snap’s disappointing user growth and engagement was a foreseeable
13 consequence of Defendants’ misrepresentations and omissions of material facts
14 concerning Snap’s user growth and engagement and the competition it faced from
15 Instagram. This disclosure partially (but incompletely) revealed some of the relevant
16 truth concealed and/or obscured by Defendants’ prior misstatements and omissions,
17 which created the false impression that Snap expected its user growth to continue
18 unabated and that the risk of Instagram’s clone features directly competing against
19 Snap was a hypothetical risk rather than a concealed reality.

20 269. As a direct and proximate result of this partial corrective disclosure of the
21 Exchange Act Defendants’ fraud, the price of Snap’s common stock fell \$4.93 per
22 share, or approximately 21%, from a closing price of \$22.98 on May 10, 2017, to close
23 at \$18.05 per share on May 11, 2017

24 270. As was widely reported at the time, analysts attributed the stock price
25 decline on this date to Snap’s disappointing DAU growth, as reflected in numerous
26 analyst reports:
27

- 1 a. Morningstar reported on May 10, 2017 that “growth in daily average
2 users, or DAUs, was disappointing.”
- 3 b. Piper Jaffray reported that Snap’s “user growth and ad load ramp [was]
4 underwhelming given the company’s valuation” and that “[I]acking
5 DAU and revenue upside in the first quarter as a public company
6 means SNAP is now firmly in the penalty box.”
- 7 c. Canaccord reported that “DAU growth decelerated again to 36%, a far
8 cry from the 63% growth seen in Q3, and although this was roughly in
9 line with our estimate, it is likely the primary reason for the stock’s
10 volatility after the earnings report.”
- 11 d. William Blair reported that “Average daily active users (DAUs) of 166
12 million were about 1.3 million below the Street estimate.” The report
13 noted that “most investors were focused on the company’s DAUs
14 metric heading into the print with concerns about how competition
15 from Facebook.”
- 16 e. Barclays reported that the “biggest issue was the lack of any
17 meaningful pick up in ROW DAU net adds.”
- 18 f. Credit Suisse reported that “We expect the positive aspects of SNAP’s
19 1Q17 report (North America monetization, hosting cost leverage) to
20 be overshadowed by the revenue and DAU miss, as this was certainly
21 NOT in the script for its first report as a public company.”

22 271. The views of analysts were echoed in other market commentary. For
23 example, *TechCrunch* reported on May 10, 2017, “Snap’s growth rate increased just a
24 little in Q1 2017 – a bad start to its first quarterly earnings report since going public.”
25 Market commentators uniformly attributed Snap’s slowing user growth to direct
26 competition from Instagram. For example, *VentureBeat* reported on May 10, 2017 that
27

1 “Facebook’s plan worked: Snapchat hits 166 million users, 34 million fewer than
2 Instagram Stories.”

3 272. As alleged in ¶¶187-89 above, on June 7, 2017, it was reported that based
4 on data from SensorTower, a firm that tracks app analytics, worldwide downloads of
5 Snapchat for the months of April and May 2017 were down 22% from the year prior,
6 confirming that the image of Snap as a rapidly-growing, soon-to-be profitable business
7 presented in the Registration Statement was just a mirage. A report issued by Nomura
8 Instinet on this date noted that “By comparison, Instagram downloads have
9 demonstrated YoY growth, suggesting that competitive pressures may be intensifying
10 for Snap, challenging the platform’s ability to attract and retain new users.” As a direct
11 and proximate result of this partial corrective disclosure of Defendants’ fraud, the price
12 of Snap’s common stock fell approximately 7.4%, from a prior close of \$20.36 per
13 share on June 6, 2017 to close at \$18.85 per share on June 8, 2017.

14 273. The revelation of the rapid decline in downloads of Snapchat was a
15 foreseeable consequence of the Exchange Act Defendants’ misrepresentations and
16 omissions of material facts concerning Snap’s user growth and engagement. This
17 disclosure partially (but incompletely) revealed some of the relevant truth concealed
18 and/or obscured by the Exchange Act Defendants’ prior misstatements and omissions,
19 which created the false impression that Snap expected its user growth to continue
20 unabated and that the risk of Instagram’s clone features directly competing against
21 Snap was a hypothetical risk rather than a concealed reality.

22 274. As alleged in ¶¶190-92 above, on July 11, 2017, Morgan Stanley lowered
23 its price target by 42% to \$16 and downgraded Snap to equal-weight. The report
24 specifically tied its downgrade of Snap’s stock to the fact that “Instagram competition
25 is increasing.” The report stated that Morgan Stanley was “lowering [its] forward DAU
26 estimates given this data,” which it viewed as a “troubling directional trend[] which
27 causes us to lower our DAU outlook.”

1 244. Morgan Stanley’s shocking downgrade was noted by market participants
2 as signaling a significant change in the outlook of Snap stock. For example, Yahoo!
3 Finance reported that “Morgan Stanley’s downgrade is a particularly hard hit for the
4 company as the bank was the lead underwriter for Snap’s IPO, guiding the company
5 through the process and helping determine its initial stock price.” The report
6 highlighted that Morgan Stanley’s downgrade was based on concerns about Snap’s
7 ability to grow, and “effectively refuted the main reasons why Snap’s biggest
8 champions believed in the company at all: its apparent scalability and unique
9 platform.” Similarly, CNBC described Morgan Stanley’s downgrade as “a rare rebuke
10 by a firm that helped bring [Snap] public.”

11 275. Morgan Stanley’s downgrade was a foreseeable consequence of
12 Defendants’ misrepresentations and omissions of material facts concerning Snap’s user
13 growth and engagement. This disclosure partially (but incompletely) revealed some of
14 the relevant truth concealed and/or obscured by the Exchange Act Defendants’ prior
15 misstatements and omissions, which created the false impression that Snap expected
16 its user growth to continue unabated and that the risk of Instagram’s clone features
17 directly competing against Snap was a hypothetical risk rather than a concealed reality.

18 276. As a direct and proximate result of this partial corrective disclosure of the
19 Exchange Act Defendants’ fraud, the price of Snap’s common stock fell \$1.52 per
20 share, or approximately 8.9%, from a closing price of \$16.99 on July 10, 2017, to close
21 at \$15.47 per share on July 11, 2017.

22 277. As further evidence that the decline in Snap’s stock price was proximately
23 caused by the disclosure of new information regarding the impact of Instagram’s
24 directly competitive features on Snap’s user growth and engagement—a fact that was
25 known, but fraudulently concealed by the Exchange Act Defendants, *TechCrunch*
26 reported on August 2, 2017 that “If Facebook’s goal was stop Snap in its tracks, it’s
27 largely succeeded with Instagram Stories. Snapchat’s monthly active user growth rate

1 has plummeted from 17.2% per quarter to just 5%, while Snap’s share price has fallen
2 from its \$17 IPO to \$13.”

3 278. As alleged in ¶¶193-204 above, on August 10, 2017, Snap reported its
4 financial results for the second quarter of 2017, which included DAU growth of only
5 4% quarter-over-quarter, from 166 million in Q1 2017. The disclosure of a second
6 consecutive quarter of Snap’s disappointing user growth and engagement was a
7 foreseeable consequence of the Exchange Act Defendants’ misrepresentations and
8 omissions of material facts concerning Snap’s user growth and engagement. This
9 disclosure revealed the relevant truth concealed and/or obscured by Defendants’ prior
10 misstatements and omissions, which created the false impression that Snap expected
11 its user growth to continue unabated and that the risk of Instagram’s clone features
12 directly competing against Snap was a hypothetical risk rather than a concealed reality.

13 279. As a direct and proximate result of this corrective disclosure of
14 Defendants’ fraud, Snap’s share price declined \$1.94 per share, or approximately 14%,
15 from a closing price of \$13.77 on August 10, 2017, to close at \$11.83 per share on
16 August 11, 2017.

17 280. Analysts again attributed the decline to Snap’s disappointing user
18 engagement metrics:

- 19 a. Morningstar reported that “Snap’s second quarter was yet again
20 disappointing,” as “the daily average user growth came in below
21 expectations.” The report concluded that “[w]hile Snap is making
22 headway into further monetizing its user base, we still believe lack of
23 robust growth in the firm’s overall user base weakens the sustainability
24 of any network effect.”
- 25 b. Canaccord reported that “SNAP’s Q2 results were generally below
26 consensus, with slowing DAU growth and lower monetization than
27

1 expected. DAU growth continues to be strongest in North America,
2 further illustrating the company’s international competitive obstacles.”
3 c. Piper Jaffray reported that “Snap reported weak revenue and mixed
4 engagement,” noting that “DAUs continue to be the most important
5 indicator of SNAP’s future, not just because it is a metric the Street
6 likes, but because it drives the dominating narrative told to advertisers
7 and agencies.” The report continued that “Snap is clearly losing
8 market share to Instagram despite being 1/3rd of its size and has
9 established a weakening narrative that extends outside of the Street to
10 advertisers who are deciding where to allocate ad spend.” The report
11 concluded that the analysts “remain skeptical of Snap’s longevity, as
12 the company lacks meaningful innovation in the face of significant
13 competitive pressure.”

14 281. The economic losses, i.e., damages, suffered by Plaintiffs and other Class
15 members are direct and foreseeable results of: (i) the Exchange Act Defendants’
16 materially false or misleading statements and omissions of material fact, which caused
17 the price of Snap common stock to be artificially inflated; and (ii) the subsequent
18 significant decline in the price of Snap common stock when the truth was gradually
19 revealed on April 4, May 10, June 7-8, July 11, and August 10, 2017, removing
20 portions of the artificial inflation from the price of Snap common stock.

21 **X. PRESUMPTION OF RELIANCE**

22 282. In support of Plaintiffs’ claims under the Exchange Act, Plaintiffs will
23 rely upon the presumption of reliance established by the fraud-on-the-market doctrine
24 to establish reliance for the Exchange Act Defendants’ false and misleading statements
25 alleged above in ¶¶227-57. Plaintiffs’ reliance may be presumed because, among other
26 things:
27

- 1 a. The Exchange Act Defendants made public misrepresentations or
- 2 failed to disclose material facts during the Class Period;
- 3 b. The omissions and misrepresentations were material;
- 4 c. The Company's common stock traded in an efficient market;
- 5 d. The alleged misrepresentations would tend to induce a reasonable
- 6 investor to misjudge the value of the Company's common stock; and
- 7 e. Plaintiffs and other members of the Class purchased Snap common
- 8 stock between the time defendants misrepresented or failed to disclose
- 9 material facts and the time the true facts were disclosed, without
- 10 knowledge of the misrepresented or omitted facts.

11 283. At all relevant times, the market for Snap common stock was efficient for
12 the following reasons, among others:

- 13 a. Throughout the Class Period, Snap common stock was listed and
- 14 actively traded on the New York Stock Exchange, a highly efficient
- 15 and automated market;
- 16 b. Throughout the Class Period, over a dozen different firms and dozens
- 17 of analysts covered Snap common stock;
- 18 c. As a regulated issuer, Snap filed periodic public reports with the SEC;
- 19 and
- 20 d. Snap regularly communicated with public investors via established
- 21 market communication mechanisms, including through regular
- 22 dissemination of press releases on the major news wire services and
- 23 through other wide-ranging public disclosures, such as
- 24 communications with the financial press, securities analysts and other
- 25 similar reporting services.

26 284. In addition, with respect to the material omissions alleged above in ¶¶241-
27 48, Plaintiffs are entitled to the *Affiliated Ute* presumption of reliance due to

1 Defendants' failure to disclose the fact of Pompliano's whistleblower suit and its
2 allegations relating to the accuracy and integrity of Snap's user metrics. Defendants
3 had a duty to disclose this information under ASC 450, but made no such disclosure.

4 **XI. INAPPLICABILITY OF THE STATUTORY SAFE HARBOR OR**
5 **BESPEAKS CAUTION DOCTRINE**

6 285. The statutory safe harbor and/or bespeaks caution doctrine applicable to
7 forward-looking statements under certain circumstances does not apply to any of the
8 materially false or misleading statements pleaded in this Complaint.

9 286. None of the statements complained of herein was a forward-looking
10 statement. Rather, each was historical statements or a statement of purportedly current
11 facts and conditions at the time such statement was made.

12 287. To the extent that any of the false or misleading statements alleged herein
13 can be construed as forward-looking, any such statement was not accompanied by
14 meaningful cautionary language identifying important facts that could cause actual
15 results to differ materially from those in the statement.

16 288. To the extent that the statutory safe harbor does apply to any forward-
17 looking statement pleaded herein, Defendants are liable for any such statement because
18 at the time such statement was made, the particular speaker actually knew that the
19 statement was false or misleading, and/or the statement was authorized and/or
20 approved by an executive officer of Snap who actually knew that such statement was
21 false when made.

22 289. Moreover, to the extent that any Defendant issued any disclosures
23 purportedly designed to "warn" or "caution" investors of certain "risks," those
24 disclosures were also materially false and/or misleading when made because they did
25 not disclose that the risks that were the subject of such warnings had already
26 materialized and/or because such Defendant had actual knowledge of existing, but
27

1 undisclosed, material adverse facts that rendered such “cautionary” disclosures
2 materially false and/or misleading.

3 **XII. CAUSES OF ACTION UNDER THE EXCHANGE ACT**

4 **A. COUNT I: For Violation of §10(b) of the Exchange Act and Rule 10b-**
5 **5 Against the Exchange Act Defendants**

6 290. Plaintiffs incorporates ¶¶1-289 by reference.

7 291. During the Class Period, the Exchange Act Defendants disseminated or
8 approved the false statements specified above, which they knew or deliberately
9 disregarded were misleading in that they contained misrepresentations and/or failed to
10 disclose material facts necessary to make the statements made, in light of the
11 circumstances under which they were made, not misleading, thereby violating §10(b)
12 of the Exchange Act and Rule 10b-5.

13 292. Plaintiffs and the Class have suffered damages in that, in reliance on the
14 integrity of the market, they paid artificially inflated prices for Snap stock. Plaintiffs
15 and the Class would not have purchased Snap stock at the prices they paid, or at all, if
16 they had been aware that the market prices had been artificially and falsely inflated by
17 the Exchange Act Defendants’ misleading statements. Plaintiffs and other Class
18 members suffered actual economic loss and were damaged when the trading price of
19 Snap common stock declined upon the public disclosure of new information correcting
20 the Exchange Act Defendants’ misrepresentations regarding Snap’s user growth and
21 engagement, Pompliano’s allegations regarding the Exchange Act Defendants’
22 knowing misrepresentation of Snap’s user engagement metrics, and Defendants’ use
23 of “growth hacking” to inflate Snap’s user engagement metrics. These revelations
24 occurred through at least five partial corrective disclosures on: April 4, 2017, May 10,
25 2017, June 7-8, 2017, July 11, 2017, and August 10, 2017.

XIII. VIOLATIONS OF THE SECURITIES ACT

1
2 300. Plaintiffs bring the claims in Count III and V under Sections 11 and 15 of
3 the Securities Act, individually and on behalf of all persons and entities who purchased
4 shares of Snap common stock pursuant and/or traceable to the materially false and
5 misleading Registration Statement effective March 1, 2017 and were damaged thereby.

6 301. Plaintiffs non-fraud claims brought under the Securities Act are based on
7 the fact that the Registration Statement contained untrue statements of material fact
8 and omitted other facts necessary to make statements therein not materially false or
9 misleading. Specifically, the Registration Statement contained untrue statements of
10 material fact and omitted material facts about the Company’s business and operations,
11 including misrepresentations and omissions regarding: (1) Snap’s user growth and
12 engagement, by minimizing the known adverse impact that Instagram’s clone Stories
13 function was having on Snap’s user growth and engagement; and (2) the restatement
14 of Snap’s 2015 daily user metrics by failing to disclose Pompliano’s detailed, credible
15 allegations regarding Defendants’ allegedly knowing misrepresentation of Snap’s user
16 engagement metrics and severe internal controls deficiencies.

17 302. In addition, the Registration Statement omitted material facts that Snap
18 was required to disclose under Item 303 regarding the known adverse trend of direct
19 competition by Instagram following its introduction of a clone version of Snapchat’s
20 Stories on its platform.

21 303. The Registration Statement also failed to disclose information regarding
22 material risks pursuant to Item 503, including: (i) the effect of Facebook’s competing
23 product, Instagram Stories, on Snap’s DAU; and (ii) the existence and merits of
24 Pompliano’s complaint.

25 304. Finally, the Registration Statement failed to disclose information required
26 to be disclosed under ASC 450 regarding Pompliano’s complaint in its discussion of
27 litigation-related risks facing the Company.

1 **A. Securities Act Parties**

2 **1. Additional Plaintiffs**

3 305. Donald R. Allen is an individual investor who purchased Snap common
4 stock pursuant to the Registration Statement effective as of March 1, 2017, as described
5 in the certification attached hereto as Exhibit B, and was damaged thereby. Shawn B.
6 Dandridge is an individual investor who purchased Snap common stock pursuant to
7 the Registration Statement effective as of March 1, 2017, as described in the
8 certification attached hereto as Exhibit C, and was damaged thereby.

9 **2. Securities Act Defendants**

10 306. As specified in Counts III-V below, Plaintiffs’ claims under the Securities
11 Act are asserted against Defendants Snap, Spiegel, Murphy, and Vollero (collectively,
12 the “Securities Act Defendants”).

13 **B. Factual Background**

14 **1. Snap’s IPO**

15 307. On February 2, 2017, Snap filed a preliminary version of the registration
16 statement and prospectus with the SEC on Form S-1, and filed amendments thereto on
17 Form S-1/A on February 2, 2017, February 9, 2017, February 16, 2017, and February
18 27, 2017, respectively. The Registration Statement was signed by Defendants Spiegel,
19 Murphy, and Vollero, and was declared effective by the SEC on March 1, 2017.

20 308. On or about March 3, 2017, Snap completed its IPO, raising
21 approximately \$3.4 billion from investors by selling 200 million shares of Snap
22 common stock at \$17 per share. As set forth above, Snap offered, sold, and/or solicited
23 sales of Snap common stock in the IPO.
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1 **2. The Securities Act Defendants Rushed to Bring Snap to Market**
2 **In the Face of Rapidly Growing Competition from Facebook**

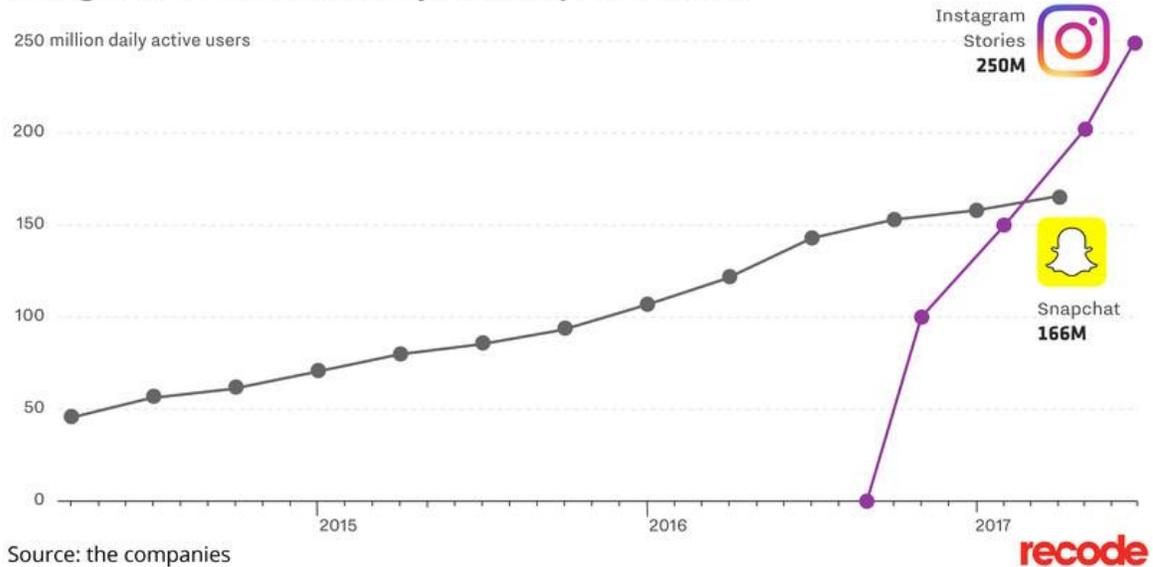
3 309. Snap’s IPO was hotly anticipated, in part due to a lull in major IPO filings
4 in the year preceding Snap’s IPO, and the fact that a major social media company had
5 not had an IPO since Twitter in 2013. However, unlike Facebook and Twitter, Snap
6 was still immature in terms of the monetization of its user base at the time it went
7 public. As one of the early investors in Snap commented, the IPO “definitely happened
8 faster than I thought” and that he was surprised that “they’re going to go tap the public
9 markets already.”

10 310. Undisclosed to investors, Snap’s eagerness to tap into public investors as
11 a source of capital was due to the fact that six months prior to Snap’s IPO, in August
12 2016, Facebook released its own version of Snapchat’s wildly popular “Stories” feature
13 on its Instagram platform, allowing users to share multiple photos and videos in a
14 slideshow format. Bearing the identical name, Instagram’s Stories was a virtual clone
15 of Snapchat Stories and immediately resulted in a rapid increase in user growth and
16 engagement on Instagram at the same time that Snap’s user growth and engagement
17 plummeted.

18 311. As would only be revealed after the IPO, Instagram’s replication of
19 Stories had an immediate and dramatic impact on Snapchat’s user growth and
20 engagement, as reflected in the following chart:
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Instagram Stories versus Snapchat daily active users



312. Former employees confirm that it was known within Snap that Instagram Stories was directly competitive with Snapchat and was responsible for Snap’s decline user growth and engagement. Moreover, the threat of competition by Instagram led Snap’s customers to question the value of Snapchat as a platform for advertising, concerns which were directly communicated to Snap’s senior management prior to the IPO.

313. In the face of the known, material adverse trend posed by competition from Instagram, the underwriters conducted a hasty due diligence investigation as Snap rushed to go public before the extent of the impact of Instagram’s Stories had on Snap’s user growth and engagement. For example, in an unprecedented move fueled by Snap’s demands for secrecy, in jockeying with other banks to be part of the syndicate of underwriters, all banks but Morgan Stanley and Goldman Sachs dispensed with even receiving a draft of the IPO prospectus before it was filed. As one prominent capital markets lawyer at Orrick Herrington & Sutcliffe LLP remarked at the time, “I cannot imagine any other deal in which banks would let something like this happen.”

1 **3. The Securities Act Defendants Conceal Pompliano’s Credible**
2 **Allegations that Snap’s User Metrics were Unreliable**

3 314. Pompliano filed his initial complaint in California Superior Court on
4 January 4, 2017. The initial complaint was filed under seal, with only a heavily-
5 redacted version available for the public. As was reported at the time, Snap
6 immediately denied the allegations, stating that the complaint “has no merit” and was
7 “totally made up by a disgruntled former employee.”

8 315. Snap’s public denials continued during the period before its IPO. On
9 January 18, 2017, the Company moved to maintain Pompliano’s California under seal,
10 stating in a public filing that Pompliano’s complaint was a “late-breaking bid” to air
11 “sensationalist allegations” as Snap prepared for its IPO. Furthermore, Snap derided
12 Pompliano’s allegations, stating that his “allegations against Snap are false from top to
13 bottom and right out of his allege-fraud-against-former-employers playbook.”

14 316. Undisclosed to investors, one of Pompliano’s core allegations, which was
15 not publicly available at the time of the IPO, was that Snap had historically misstated
16 its DAU numbers due to its reliance on third party measurement applications it knew
17 to be false. The Registration Statement confirmed this fact, demonstrating the
18 materiality of the omission of Pompliano’s allegations in the Registration Statement.

19 **4. The Underwriters Reap Enormous Profits in Snap’s IPO**

20 317. Based on the number of shares sold in the IPO, the underwriters netted
21 approximately over \$80 million in commissions. In addition, the underwriters in
22 Snap’s IPO reserved up to 7.0% of Snap shares at the initial public offering price which
23 they sold at handsome profits.

1 **5. As Information Concealed in the Registration Statement Is**
2 **Gradually Disclosed, the True Value of Snap Common Stock Is**
3 **Revealed**

4 318. The Registration Statement contained untrue statements of material fact,
5 omissions of material fact which rendered the Securities Act Defendants' disclosures
6 misleading, as well as material omissions in contravention of the Securities Act
7 Defendants' affirmative disclosure obligations. As a result of these misstatements and
8 omissions, the information disclosed in the Registration Statement did not accurately
9 reflect the risks associated with investments in Snap common stock, and therefore the
10 initial offering price set by the Securities Act Defendants did not reflect the true value
11 of Snap common stock.

12 319. As the information concealed by the Securities Act Defendants'
13 misstatements and omissions was gradually disclosed to the market, the disclosure of
14 this new information revealed the true value of Snap common stock, causing the
15 trading price of Snap common stock to decline, thereby damaging Plaintiffs and the
16 Class.

17 320. The following events, among others, revealed the relevant truth
18 concealed by Defendants' misstatements and omissions:

- 19 a. On April 4, 2017, it was reported that Pompliano had moved to unseal
20 the Pompliano California Complaint. The report noted that according
21 to newly-released details, "[c]urrently redacted portions of
22 Pompliano's lawsuit contain user metrics that he claims are different
23 from what Snap told investors and the press ahead of its February
24 IPO."
25 b. On May 10, 2017, Snap announced disappointing user growth of only
26 5% quarter-over-quarter in the first quarter of 2017. Market
27 commentators attributed Snap's slowing user growth to direct
28 competition from Instagram. For example, a report by *VentureBeat*

1 noted that “Snapchat added 5 million users in Q4 2016, and just a little
2 more in Q1 2017 (8 million). Compared to early 2016, this growth rate
3 sucks, and the change correlates with the rise of Instagram Stories.”

4 c. On June 7, 2017, it was reported that based on data from SensorTower,
5 a firm that tracks app analytics, worldwide downloads of Snapchat for
6 the months of April and May 2017 were down 22% from the year prior.
7 An analyst report issued on this date noted that “By comparison,
8 Instagram downloads have demonstrated YoY growth, suggesting that
9 competitive pressures may be intensifying for Snap, challenging the
10 platform’s ability to attract and retain new users.”

11 d. On July 11, 2017, Morgan Stanley downgraded Snap’s stock and
12 lowered its price target by 42% to \$16, below the IPO valuation. In
13 support of its decision, Morgan Stanley cited the SensorTower
14 download data, commenting that Morgan Stanley was “lowering [its]
15 forward DAU estimates given this data,” which it viewed as a
16 “troubling directional trend[] which causes us to lower our DAU
17 outlook.”

18 e. On August 10, 2017, Snap reported DAU growth of only 4% quarter-
19 over-quarter, a second consecutive quarter of disappointing user
20 growth. Market commentary attributed Snap’s disappointing DAU
21 growth to competition from Facebook. For example, on August 10,
22 2017, Fortune reported that “Snap Inc. reported a lower-than-expected
23 number of daily active users for Snapchat, its popular messaging app,
24 for the second quarter as the company grapples with stiff competition
25 from Facebook.”

26 321. These events, among others, revealed to the market that the Registration
27 Statement contained false statements and omissions of material fact about the

1 Company's user growth and the impact of competition from Instagram, as well as the
2 risk of real or perceived inaccuracies in the Company's user engagement metrics.

3 **C. The Registration Statement Contained Untrue Statements of**
4 **Material Fact and Material Omissions in Violation of Section 11 of**
5 **the Securities Act**

6 **1. Failure to Disclose the Impact of Instagram "Stories" on Snap's**
7 **DAU**

8 322. The Registration Statement made clear that Snap's Daily Active User
9 metric, or DAU, was "a critical component" to the Company's revenues and growth.
10 According to the Registration Statement, Snap "assess[ed] the health of [its] business
11 by measuring Daily Active Users" as its "ecosystem of users, advertisers, and partners
12 depend[ed] on the engagement of [its] user base." Thus, if Snap failed to retain current
13 users or add new users, or if its users engaged with Snapchat less often, its "business
14 would be seriously harmed." Similarly, Snap admitted that if the Company was
15 "unable to successfully grow [its] user base and further monetize [its] products, [its]
16 business will suffer."

17 323. Underscoring the importance of the Company's user engagement metrics,
18 and DAU in particular, to potential investors, the Registration Statement contained
19 myriad statements touting Snap's DAU and its historical growth rate. For example,
20 the Registration Statement represented that "[o]n average, 158 million people use
21 Snapchat daily, and over 2.5 billion Snaps are created every day." It further stated that
22 the "158 million Daily Active Users on average in the quarter ended December 31,
23 2016," represented "***an increase of 48%*** as compared to our Daily Active Users in the
24 quarter ended December 31, 2015."

25 324. While the Registration Statement disclosed that "[t]he rate of net
26 additional Daily Active Users was relatively flat in the early part of the quarter ended
27 December 31, 2016," it assured potential investors that that DAU growth had in fact
28 "***accelerated in the month of December.***"

1 325. Explaining the “relatively flat” DAU growth in 4Q 2016, the Registration
2 Statement noted that Snap “*historically experienced lumpiness in the growth of our*
3 *Daily Active Users*” and that this particular issue “*primarily related to accelerated*
4 *growth in user engagement earlier in the year*, diminished product performance, and
5 increased competition.”

6 326. With respect to the “*increased user engagement*” to which the
7 Registration Statement primarily attributed “lumpiness” in its growth, the Registration
8 Statement explained that “[t]he rate of net additional Daily Active Users accelerated in
9 the first half of 2016 compared to the second half of 2015, *largely due to increased*
10 *user engagement* from product launches and increased adoption rates among older
11 demographics.” This “*higher baseline of Daily Active Users* heading into the third
12 and fourth quarters,” the Registration Statement explained, made “*incremental net*
13 *additions within these quarters [] more difficult even with strong year-over-year*
14 *growth.*”

15 327. The Registration Statement minimized the impact of competition, vaguely
16 stating that the Company saw “increased competition both domestically and
17 internationally in 2016, as many of our competitors launched products with similar
18 functionality to ours.” However, the Registration Statement falsely assured investors
19 that any impact on Snap’s user growth and engagement caused by increased
20 competition was a hypothetical risk rather than a concealed reality.

21 328. For example, among potential “Risk Factors” that could “seriously
22 harm[]” the Company, the Registration Statement represented that “[w]e *anticipate*
23 *that our Daily Active Users growth rate will decline over time if the size of our active*
24 *user base increases or we achieve higher market penetration rates,*” and noted that
25 “[o]ur Daily Active Users *may* not continue to grow.”

26 329. Moreover, while disclosing the “risk” that “[o]ur business is highly
27 competitive,” the Registration Statement represented that “[i]f we are not able to
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1 maintain or improve our market share, our business *could* suffer.” Likewise, with
2 respect to Snap’s DAU-based advertising revenue, the Registration Statement noted
3 that “advertising revenue *could be* seriously harmed by” “competitive developments.”

4 330. Additionally, among “factors that could negatively affect user retention,
5 growth, and engagement,” the Registration Statement noted that “our competitors *may*
6 mimic our products and therefore harm our user engagement and growth.” The
7 Registration Statement also noted that “[o]ur competitors *may* also develop products,
8 features, or services that are similar to ours or that achieve greater market acceptance.”

9 331. The only disclosure made in the Registration Statement with respect to
10 Instagram Stories was the following:

11 Instagram, a subsidiary of Facebook, recently introduced a ‘stories’
12 feature that largely mimics our Stories feature and *may be* directly
13 competitive.

14 332. The statements in ¶¶322-331 were materially false and misleading
15 because, rather than its DAU growth “accelerating” or being hindered by historical
16 “lumpiness” or a “higher baseline,” Snap’s DAU growth rate had been significantly
17 diminished by Facebook’s launch of Instagram “Stories.”

18 333. For example, FE 1 revealed that from the second and third quarters of
19 2016 until the time FE 1 left Snap in the first quarter of 2017, there was an ongoing
20 concern within Snap regarding Instagram and its effect on Snap’s ability to compete
21 for advertisers. FE 1 described how sales teams were nervous because Instagram came
22 up in conversations with Snap’s major advertising clients and the concern about
23 Instagram was always in the background in such conversations. FE 1 stated that it was
24 known internally at Snap that Facebook was spending a lot of money on Instagram in
25 order to compete with Snapchat. FE 1 revealed that after Instagram launched its Stories
26 function, concerns about Instagram and Snap’s ability to compete specifically came up
27 in the sales team’s conversations with advertisers.

1 334. FE 1 stated that in light of Instagram’s release of Stories, Snap’s pitch to
2 advertisers centered on Snapchat’s authenticity. FE 1 added that advertisers were told
3 that Snapchat was on an upward trajectory and the advertisers wouldn’t want to miss
4 the chance to get in on it. FE 1 noted that these claims were often met with skepticism.

5 335. FE 1 explained that the sales team’s concerns were relayed to Snap’s
6 executive management. FE 1 stated that sales personnel told Snap’s executive
7 management that Snap had to respond to Instagram’s Stories launch and asked what
8 they should say to advertisers. In response, Snap released a statement internally to the
9 Company’s employees responding to this concern. FE 1 stated that this statement by
10 executive management simply touted Snap’s ability to innovate and minimized the risk
11 of competition.

12 336. FE 2 described a January 2017 company-wide meeting held in an airplane
13 hangar in Santa Monica, which FE 2 characterized as an attempt to host an Apple-style
14 town hall for all employees. At the company-wide meeting, Spiegel held a Q&A
15 session in which he fielded numerous questions from Snap employees concerned about
16 the Company’s ability to compete with Facebook’s Instagram and the negative
17 sentiment about Snapchat expressed to sales staff from advertisers. FE 2 recalled that
18 these concerns were met with a dismissive attitude and a vague call to execute on the
19 Company’s strategy and not worry about Facebook. Spiegel’s views were later
20 summarized in a company-wide memo from Spiegel that sought to rebut the concerns
21 expressed by employees about the impact of competition from Facebook.

22 337. FE 2 revealed that in contrast to management’s dismissive attitude, Snap
23 sales personnel were left to convince skeptical advertisers of the value of investing in
24 Snap’s platform, whose effectiveness was unproven, instead of Facebook or Instagram,
25 with which advertisers were familiar and more confident in their return on investment.
26 FE 2 revealed that in light of the consistent concerns expressed by Snap’s advertising
27 customers about the value of Snap’s platform, Snap’s internal sales projections and
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1 assumptions about their ability to grow and monetize their platform were unreasonable.
2 For example, FE 2 revealed that sales teams in different regions, including Dallas, New
3 York, and Chicago were unable to meet the Company’s sales targets, which assumed
4 continued exponential growth.

5 338. These accounts are corroborated by new reports published after the IPO,
6 which revealed that internally at Snap there was widespread anxiety over Snap’s
7 inability to compete with Facebook. For example, as recounted in a *Business Insider*
8 profile of Spiegel published months after the IPO in August 2017:

9 Around the time of Snap’s initial public offering in early March,
10 employees got a rare chance to ask the CEO, Evan Spiegel, anything on
their minds.

11 Unlike the “town hall” meetings at Google, Facebook, and other tech
12 companies, the Q&A at Snap was a written affair. Using a shared
13 document, employees submitted questions to the company’s 27-year-old
leader.

14 The result revealed a common anxiety: About one dozen of the questions
15 were a variation of whether employees should worry about Snapchat’s
competitors, particularly Facebook and Instagram, which appeared to be
16 crimping Snapchat’s rapid growth.

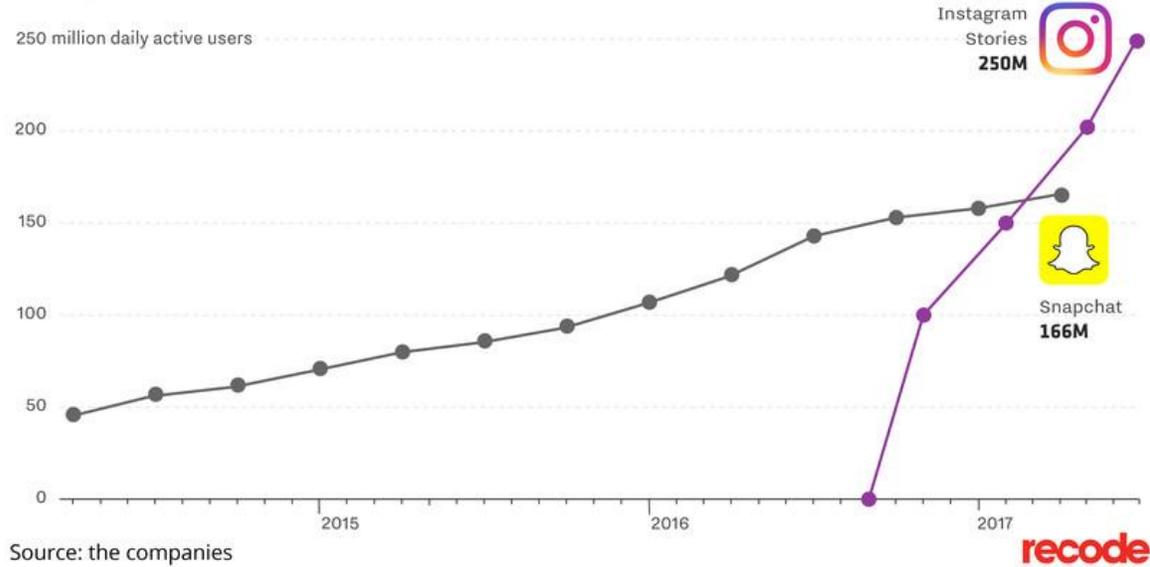
17 339. Consistent with the accounts of former Snap employees, the report
18 revealed that Spiegel minimized the risk of competition from Instagram, dismissing
19 the concerns of his employees:

20 Spiegel’s responses were short, and the one-word answer “no” was all that
21 was written next to some of the queries, according to multiple people with
22 knowledge of the document. Other answers of Spiegel’s explained how
employees should not think about the competition and should instead
focus on delivering the best products and on innovating.

23 340. Indeed, immediately upon Instagram’s launch of its “Stories” feature,
24 Snap observed an immediate drop in new downloads of its application. By the time of
25 the offering, Instagram’s Stories feature had as many daily active users as Snap. The
26 following graph illustrates this trend:
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Instagram Stories versus Snapchat daily active users



341. Thus, rather than the hypothetical possibility of competition by Instagram to which the Registration Statement vaguely referred, Facebook had in fact “develop[ed] products, features, or services” specifically designed to mimic Snap’s features and directly compete with Snap. Moreover, Instagram’s rapid growth in its DAU in a matter of a few months to reach the number of users Snap had achieved in two years represented an existential threat to Snap.

342. Despite this known trend, the statements in the Registration Statement created a materially false impression that the Company’s DAU would continue to grow even in the face of serious competition that was then-affecting the Company.

2. Failure to Disclose the Fact of and Nature of Allegations in the Pompliano Complaint

343. The Registration Statement emphasized the importance of lawsuits to the Company by disclosing to potential investors that “[f]rom time to time, we are involved in class-action lawsuits and other litigation matters that are expensive and time-

1 consuming. If resolved adversely, lawsuits and other litigation matters could seriously
2 harm our business.” In particular, the Registration Statement explained:

3
4 *Any such negative outcome could result in payments of substantial*
5 *monetary damages or fines, or changes to our products or business*
6 *practices, and accordingly our business could be seriously harmed.*
7 *Although the results of lawsuits and claims cannot be predicted with*
8 *certainty, we do not believe that the final outcome of those matters that*
9 *we currently face will seriously harm our business.*

10 344. Highlighting the significance of lawsuits to the Company, the Registration
11 Statement specifically disclosed in a section of the Registration Statement titled,
12 “Pending Matters,” two lawsuits. The first disclosed lawsuit was brought in September
13 2015 and involved a claim that the defendants improperly used the plaintiff’s image.
14 The second was a personal injury lawsuit filed in April 2016 which had been dismissed.
15 Yet, the Registration Statement failed to disclose the existence and substance of
16 Pompliano’s claims against the Company—which, at the time of the IPO, had been
17 filed under seal, with material information redacted from public view.

18 345. As set forth above, Pompliano’s complaint revealed a systemic failure in
19 Snapchat’s internal controls and computation of critical user metrics, and alleged that
20 these problems persisted until the IPO. More specifically, Pompliano claimed that
21 Snap’s user data was unreliable and inaccurate, and that Snap had misled advertisers
22 and investors.

23 346. Indeed, without disclosing the merits of Pompliano’s complaint, the
24 Registration Statement attempted to clarify Snap’s historical data analytics by stating:

25 In the past we have relied on third-party analytics providers to calculate
26 our metrics, but today we rely primarily on our analytics platform that we
27 developed and operate. . . . Additionally, to align our pre-June 2015 Daily
28 Active Users with this new methodology, we reduced our pre-June 2015
Daily Active Users by 4.8%, the amount by which we estimated the data
generated by the third party was overstated. Since this adjustment is an
estimate, the actual pre-June 2015 Daily Active Users may be higher or
lower than our reported numbers. As a result, our metrics may not be
comparable to prior periods.

1 347. The reliability of Snap’s third party analytics and the adjustment that Snap
2 asserted that it had made to the 2015 Daily Active User metrics were precisely the facts
3 that Pompliano asserted that he had identified and raised with Snap’s senior managers
4 in 2015 and had been fired in retaliation as a result of raising those very concerns,
5 among others, about Snap’s user metrics. A reasonable investor would have wanted to
6 know that (i) such allegations had been made; and (ii) the very employee that had
7 brought these issues to Snap’s attention was alleging that he had been fired in
8 retaliation therefor.

9 348. The Registration Statement’s failure to disclose the existence and
10 substance of Pompliano’s allegations and the ongoing controversy surrounding the
11 reliability of Snap’s user metrics rendered many of its statements materially
12 misleading. For instance, Pompliano’s allegations raised “perceived” if not “real”
13 concerns about the accuracy of Snap’s user metrics, which, according to the
14 Registration Statement, posed a serious harm to the Company. Snap’s failure to
15 disclose Pompliano’s allegations rendered Snap’s disclosures of historical user data
16 incomplete and misleading.

17 **D. The Registration Statement Failed to Disclose Information Required**
18 **to be Disclosed under SEC Regulations**

19 **1. Item 503**

20 349. Pursuant to Item 3 of Form S-1, the Registration Statement was required
21 to furnish the information required by Item 503 of Regulation S-K, which requires the
22 registrant to disclose, among other things, a “discussion of the *most significant factors*
23 *that make the offering speculative or risky.*” 17 C.F.R. § 229.503(c). Item 503 also
24 required that Defendants “[e]xplain how the risk affects the issuer or the securities
25 being offered.” However, the Registration Statement failed to disclose information
26 regarding material risks pursuant to Item 503. The disclosures in the Registration
27

1 Statement therefore failed to adequately alert investors to the actual risks associated
2 with an investment in Snap.

3 350. As set forth in ¶¶322-348, the Registration Statement omitted material
4 information regarding: (i) the effect of Facebook’s competing product, Instagram
5 Stories, on Snap’s user growth and engagement; and (ii) the existence and merits of
6 Pompliano’s complaint. These omissions constituted “significant factors” that made
7 the IPO “risky or speculative,” as demonstrated by the Registration Statement’s
8 disclosures regarding material risks that could pose serious threats to the Company,
9 including risk that if Snap failed to add new users, or if its users engaged less, its
10 “business would be seriously harmed” and that “*real or perceived inaccuracies* in
11 those metrics may seriously harm and negatively affect our reputation and our
12 business.”

13 351. As a result, the Securities Act Defendants had a duty to disclose these
14 currently-known, adverse factors that made the IPO risky. Defendants failed to
15 disclose the nature and magnitude of Snap’s risk from competition by Instagram, and
16 gave no meaningful indications of the Company’s real vulnerability to perceived
17 inaccuracies in its user engagement metrics. Because the Registration Statement failed
18 to make the requisite disclosures, the Securities Act Defendants violated Item 503.

19 2. Item 303

20 352. Pursuant to Item 303 and the SEC’s related interpretive releases thereto,
21 an issuer is required to disclose “any known trends or uncertainties that have had or
22 that the registrant reasonably expects will have a material favorable or unfavorable
23 impact on net sales or revenues or income from continuing operations.” 17 C.F.R. §
24 229.303(a)(3)(ii). Such disclosures are required to be made by an issuing company in
25 registration statements filed in connection with public stock offerings.

26 353. In May 1989, the SEC issued an interpretive release on Item 303 (the
27 “1989 Interpretive Release”), stating, in pertinent part, as follows:

1 Required disclosure is based on currently known trends, events and
2 uncertainties that are reasonably expected to have material effects, such
3 as: A reduction in the registrant's product prices; erosion in the
4 registrant's market share; changes in insurance coverage; or the likely
5 non-renewal of a material contract.

6 * * *

7 A disclosure duty exists where a trend, demand, commitment, event or
8 uncertainty is both presently known to management and reasonably likely
9 to have material effects on the registrant's financial condition or results of
10 operation.

11 354. Furthermore, the 1989 Interpretive Release provided the following test to
12 determine if disclosure under Item 303(a) is required:

13 Where a trend, demand, commitment, event or uncertainty is known,
14 management must make two assessments:

15 (1) Is the known trend, demand, commitment, event or uncertainty likely
16 to come to fruition? If management determines that it is not reasonably
17 likely to occur, no disclosure is required.

18 (2) If management cannot make that determination, it must evaluate
19 objectively the consequences of the known trend, demand, commitment,
20 event or uncertainty, on the assumption that it will come to fruition.
21 Disclosure is then required unless management determines that a material
22 effect on the registrant's financial condition or results of operations is not
23 reasonably likely to occur.

24 355. The Registration Statement failed to disclose material information
25 regarding known trends and uncertainties pursuant to Item 303. As alleged herein, the
26 Registration Statement failed to disclose that Facebook had launched a clone version
27 of one of Snap's key products—Snapchat Stories—which was causing a materially
28 unfavorable impact on Snap's user growth and engagement and, consequently, its
ability to monetize its platform.

356. As set forth in ¶¶322-348, the Registration Statement omitted material
information regarding: (i) the effect of Facebook's competing product, Instagram
Stories, on Snap's user growth and engagement; and (ii) the existence and merits of
Pompliano's complaint.

1 reasonably possible loss is not estimable, then a company must disclose the nature of
2 the contingency and describe why it is unable to estimate the amount of the loss.

3 361. Under ASC 450, the Securities Act Defendants’ failure to disclose
4 Pompliano’s complaint in its discussion of litigation-related risks facing the Company
5 was a material omission. Given that, according to the Registration Statement, “*real or*
6 *perceived inaccuracies* in [Snap’s user] metrics may seriously harm and negatively
7 affect our reputation and our business,” Pompliano’s allegations posed a risk of
8 material loss that was at least reasonably probable, regardless of whether Snap disputed
9 Pompliano’s claims.

10 362. Moreover, California Labor Code § 1054, pursuant to which Pompliano
11 brought his initial complaint, provides for treble damages. In addition to such
12 damages, Pompliano sought punitive damages for his alleged wrongful termination.
13 Given that at the time of IPO, Snap was losing money, the likelihood of a material loss
14 as a result of his complaint was “reasonably possible.” Therefore, the Securities Act
15 Defendants violated ASC 450 by failing to disclose the fact of Pompliano’s complaint.

16 **XIV. CAUSES OF ACTION UNDER THE SECURITIES ACT**

17 **A. COUNT III: For Violation of §11 of the Securities Act Against the**
18 **Securities Act Defendants**

19 363. Plaintiffs incorporate ¶¶300-362 by reference. Allegations contained in
20 ¶¶1-22 and 39-299 are expressly not part of this claim. This claim is premised on the
21 remedies available under Section 11 of the Securities Act, and does not assert that the
22 Securities Act Defendants acted with fraudulent intent.

23 364. The Registration Statement contained untrue statements of material fact,
24 omitted to state other facts necessary to make the statements made therein not
25 misleading and/or omitted facts required to be stated therein.

26 365. Defendants Spiegel, Murphy, and Vollero each signed the Registration
27 Statement and caused it to be declared effective by the SEC on or about March 1, 2017.

1 366. Snap is the registrant for the IPO and as issuer of the shares is strictly
2 liable to Plaintiffs and the Class for the misstatements and omissions.

3 367. Each of the Securities Act Defendants named herein is responsible for and
4 are liable for the contents and dissemination of the Registration Statement.

5 368. As a result of their roles with Snap, and their contacts and
6 communications, Defendants Spiegel, Murphy, Vollero should have known of the
7 untrue and misleading statements of material fact contained in the Registration
8 Statement.

9 369. The Securities Act Defendants caused the Registration Statement to be
10 filed with the SEC and to be declared effective, resulting in the issuance and sale of
11 200 million Snap shares, which shares were purchased by Plaintiffs and the Class.

12 370. None of the Defendants named herein made a reasonable investigation or
13 possessed reasonable grounds for the belief that the statements contained in the
14 Registration Statement were true and did not omit any material facts required to be
15 stated therein or facts that were necessary to make the statements made therein not
16 false or misleading.

17 371. By reason of the conduct herein alleged, each defendant named in this
18 Count violated §11 of the Securities Act.

19 372. Plaintiffs acquired Snap common stock pursuant and/or traceable to the
20 Registration Statement.

21 373. Plaintiffs and the Class have sustained damages as a result of the
22 Securities Act violations alleged herein.

23 374. At the time of Plaintiffs' purchases of Snap common stock, Plaintiffs and
24 other members of the Class were without knowledge of the facts concerning the
25 wrongful conduct alleged herein and could not have reasonably discovered those facts.

26 375. Less than one year elapsed from the time that Plaintiffs discovered or
27 reasonably could have discovered the facts upon which the initial complaint filed in
28

1 this action is based and the time that complaint was filed. Less than three years has
2 elapsed between the time that the securities upon which this claim is brought were
3 offered to the public and the time that the original complaint and this complaint were
4 filed.

5 **B. COUNT V: For Violation of §15 of the Securities Act Against the**
6 **Executive Defendants**

7 376. Plaintiffs incorporate ¶¶300-362 by reference. Allegations contained in
8 ¶¶1-22 and 39-299 are expressly not part of this claim. This claim is premised on the
9 remedies available under Section 15 of the Securities Act, and does not assert that
10 Defendants acted with fraudulent intent.

11 377. This Count is brought pursuant to §15 of the Securities Act against the
12 Executive Defendants.

13 378. Each of the Executive Defendants was a control person of Snap by virtue
14 of his position as an owner, director, and/or senior officer of Snap.

15 379. The Executive Defendants oversaw all operations and financial controls
16 at Snap and Snap could not have completed the IPO without these Defendants signing
17 or authorizing their signatures on the Registration Statement.

18 380. Less than one year elapsed from the time that Plaintiffs discovered or
19 reasonably could have discovered the facts upon which the initial complaint filed in
20 this action is based and the time that complaint was filed. Less than three years has
21 elapsed between the time that the securities upon which this claim is brought were
22 offered to the public and the time that the original complaint and this complaint were
23 filed.

24 **XV. CLASS ACTION ALLEGATIONS APPLICABLE TO ALL CLAIMS**

25 381. Plaintiffs bring this action as a class action on behalf of all those who
26 purchased Snap common stock during the Class Period, including those who purchased
27

1 Snap common stock pursuant and/or traceable to the Registration Statement
2 (collectively, the “Class”). Excluded from the Class are Defendants and their families,
3 the officers, directors and affiliates of Defendants, at all relevant times, members of
4 their immediate families and their legal representatives, heirs, successors or assigns,
5 and any entity in which defendants have or had a controlling interest.

6 382. The members of the Class are so numerous that joinder of all members is
7 impracticable. Snap stock is actively traded on the New York Stock Exchange. While
8 the exact number of Class members is unknown to Plaintiffs at this time and can only
9 be ascertained through appropriate discovery, Plaintiffs believe that there are thousands
10 of members in the proposed Class because over 381 million shares were outstanding
11 as of May 15, 2016. Record owners and other members of the Class may be identified
12 from records maintained by Snap or its transfer agent and may be notified of the
13 pendency of this action by mail, using the form of notice similar to that customarily
14 used in securities class actions.

15 383. Plaintiffs’ claims are typical of the claims of the members of the Class, as
16 all members of the Class are similarly affected by Defendants’ wrongful conduct in
17 violation of federal law as complained of herein.

18 384. Plaintiffs will fairly and adequately protect the interests of the members
19 of the Class and has retained counsel competent and experienced in class and securities
20 litigation.

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

- 24 a. whether Defendants violated the 1933 Act and/or 1934 Act and Rule
25 10b-5 promulgated thereunder;

- b. Declaring that Defendants are liable pursuant to the Securities Act and/or Exchange Act;
- c. Awarding compensatory damages in favor of Plaintiffs 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;
- d. Awarding Plaintiffs and the Class pre-judgment and post-judgment interest as well as reasonable attorneys' costs and expenses incurred in this action; and
- e. Awarding such other relief as the Court may deem just and proper.

XVII. JURY DEMAND

388. Plaintiffs demand a trial by jury.

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Respectfully submitted,

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