

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN
MILWAUKEE DIVISION

PLAINTIFF, Individually and on Behalf of All
Others Similarly Situated,
12769 Maypan Drive
Boca Raton, FL 33428,

Plaintiff,

vs.

A.O. SMITH CORPORATION
11270 West Park Place
Milwaukee, WI 53224

Civil No.

CLASS ACTION

Registered Agent:
The Prentice-Hall Corporation System, Inc.
251 Little Falls Drive
Wilmington, DE 19808

AJIT A RAJENDRA
11429 North Justin Drive
Mequon, WI 53092

KEVIN WHEELER
N33W29725 Woodridge Circle
Pewaukee, WI 53072

JOHN KITA
N30W29389 Hillcrest Drive
Pewaukee, WI 53072

Defendants.

DEMAND FOR JURY TRIAL

COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

Plaintiff, individually and on behalf of all others similarly situated, by plaintiffs undersigned attorneys, for plaintiffs complaint against defendants, alleges the following based upon personal knowledge as to plaintiff and plaintiffs own acts and upon information and belief as to all other matters based on the investigation conducted by and through plaintiffs attorneys, which included, among other things, a review of A.O. Smith Corporation ("A.O. Smith" or the "Company") press releases, U.S. Securities and Exchange Commission ("SEC") filings, analyst reports, media reports, and other publicly disclosed reports and information about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all purchasers of A.O. Smith common stock between July 26, 2016 and May 16, 2019, inclusive (the "Class Period"), against A.O. Smith and certain of the Company's executive officers seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. §240.10b-5. Jurisdiction is conferred by §27 of the Exchange Act, 15 U.S.C. §78aa.

3. Venue is proper in this District pursuant to §27 of the Exchange Act. The acts and transactions giving rise to the violations of law complained of occurred in part in this District, including the dissemination of false and misleading statements into this District. In addition, defendants reside and/or transact business in this District. The Company maintains its corporate headquarters in this District.

4. In connection with the acts and conduct alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails and interstate wire and telephone communications.

PARTIES

5. Plaintiff purchased A.O. Smith common stock during the Class Period as described in the Certification attached hereto and incorporated herein by reference and suffered damages.

6. Defendant A.O. Smith is a Milwaukee-based manufacturer of gas and electric water heaters, boilers, tanks and water treatment products. Its common stock trades on the New York Stock Exchange ("NYSE") under ticker symbol "AOS."

7. Defendant Ajita Rajendra ("Rajendra") has served as the Executive Chairman of A.O. Smith since September 2018. Previously, he served as the Chief Executive Officer ("CEO") and Chairman of the Board of Directors of A.O. Smith (the "Board") since April 2014.

8. Defendant Kevin Wheeler ("Wheeler") has served as CEO of A.O. Smith since September 2018, its President since May 2017 and a director since July 2017. He previously served as the Company's Chief Operating Officer ("COO"), and before that was the Company's General Manager of North America, India and Europe water heating.

9. Defendant John Kita ("Kita") served as Chief Financial Officer ("CFO") of A.O. Smith throughout the Class Period until his retirement in May 2019.

10. Defendants Rajendra, Wheeler and Kita are referred to herein as the "Individual Defendants."

11. During the Class Period, the Individual Defendants ran the Company as hands-on managers overseeing A.O. Smith's operations and finances and made the materially false and misleading statements described herein. The Individual Defendants had intimate knowledge about core aspects of A.O. Smith's financial and business operations, including its operations in China. The Individual Defendants have traveled to China on business for A.O. Smith and are focused on,

and personally involved in, the Company's operations in China given the country's importance to A.O. Smith's overall business and prospects. The Individual Defendants were also intimately involved in deciding which disclosures would be made by A.O. Smith.

BACKGROUND

12. Defendant A.O. Smith is a leading manufacturer and marketer of water heaters and boilers. It maintains two primary operating segments: (1) North America; and (2) Rest of World. The Rest of World segment primarily consists of the Company's operations in China, which accounted for approximately one-third of the Company's total sales in 2018 and almost the entirety of its Rest of World segment sales.

13. A.O. Smith has operated in China for over 20 years. In recent years, it has become an increasingly critical market by which to measure the Company's business and prospects. Not only does China present one of the largest markets for water heaters and boiler products in the world, A.O. Smith is generally thought to command a price premium in the country due to its purportedly superior product offerings. In 2018, the Company boasted "record" sales of \$3.2 billion, which it stated was "primarily" due to "higher sales of water treatment products in China," in addition to pricing actions in the United States. For the year, the Company's China sales exceeded \$1 billion.

14. Between 2015 and 2018, A.O. Smith's net sales in China grew by over 36%. However, as would only later be revealed, A.O. Smith fueled this growth through an undisclosed partner in China, Jiangsu UTP Supply Chain ("UTP"). According to later-revealed analyst allegations, A.O. Smith used UTP to inflate its sales figures, engage in "channel stuffing" (*i.e.*, forcing unwanted inventory through a controlled distribution channel) and hide the deteriorating business trends it was experiencing in China.

15. Beginning in 2015, China experienced a significant slowdown in its real estate market, which had follow-on effects for the sale of new housing appliances such as the water heater

and boilers manufactured by A.O. Smith. As a result, the growth that A.O. Smith had been experiencing in China, especially in terms of the Company's profit margins, became unsustainable as A.O. Smith struggled to maintain its pricing power against lower-cost competitors, particularly as it attempted to expand into so-called "second tier" Chinese cities. In order to mitigate adverse trends in an increasingly difficult market environment, A.O. Smith used its undisclosed relationship with UTP to inflate its gross margins and mask its actual China revenue and earnings slowdown through distributor-financed channel stuffing. By some estimates, UTP accounted for up to 75% of the Company's product sales in China during the Class Period.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

16. The Class Period begins on July 26, 2016. On that date, A.O. Smith issued a press release announcing "record second quarter" net earnings of \$87.1 million. The press release claimed that the strong results were driven in large part by the success of A.O. Smith's China operations. The press release continued in pertinent part:

"Our strong year-over-year earnings growth of 23 percent continued to demonstrate solid execution by our business teams in North America and China," noted Ajita G. Rajendra, chairman and chief executive officer.

"We achieved year-over-year sales growth in China of 16 percent in local currency in the second quarter thanks to increased sales of water heating and water treatment products," Rajendra added.

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately eight percent in the second quarter of 2016 to

\$239.8 million from \$221.3 million in the year-ago quarter. *Continued strong customer demand/or the company's premium water heating and water treatment products drove China sales nearly 16 percent higher in local currency and approximately 10 percent higher as measured in U.S. dollars.*

Operating earnings for this segment were \$33.0 million compared with \$30.9 million earned in the 2015 second quarter. The impact to profits from higher China sales was partially offset by higher selling costs to support expansion in tier 2 and tier 3 cities and the e-commerce platform in China, as well as larger losses in India. Segment operating earnings were negatively impacted by approximately \$2 million due to China currency translation. As a result of these factors, second quarter 2016 operating margin of 13.8 percent was modestly lower than the 14.0 percent operating margin in 2015.

17. On August 8, 2016, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 2Q16 earnings and operating results, including for its China segment. The Form 10-Q also stated that A.O. Smith's China sales were expected to grow throughout 2016, stating in pertinent part:

Sales in our Rest of World segment grew approximately eight percent in the second quarter of 2016, as a result of ten percent sales growth in China. Sales in our Rest of World segment grew approximately ten percent in first half of 2016. China sales in local currency grew approximately 16 percent in both the second quarter and first half of 2016 compared to the same periods last year. We expect Jul/year 2016 sales in China to grow at a rate of approximately 15 percent in local currency driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product growth at a rate significantly higher than 15 percent.

18. On October 26, 2016, A.O. Smith issued a press release announcing "record sales and strong earnings increases" for 3Q16 of \$683.9 million and \$83.2 million, respectively. The press release stated that the increases were largely due to success in the Company's China operations, stating that "continued strong demand for the company's water heating and water treatment products in China drove sales in the third quarter nine percent higher compared with sales of \$625.1 million during the same period in 2015" and that "[s]ales increased 11 percent when adjusted for the impact from the stronger U.S. dollar against the Chinese and Canadian currencies." The press release continued in pertinent part:

"A. O. Smith delivered record sales and strong earnings increases thanks to our global growth strategy," commented Ajita Rajendra, chairman and chief executive officer.

* * *

Rest of World segment

Rest of World sales, which is primarily comprised of China, Europe and India, improved 11 percent in the third quarter of 2016 to \$240.3 million. *Sales of A. O. Smith branded water heaters and water treatment products in China increased 11 percent in U.S. dollars and 17 percent in local currency.*

19. On November 8, 2016, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 3Q16 earnings and operating results, including for its China segment. The Form 10-Q reiterated that A.O. Smith was experiencing strong sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 11 percent in the third quarter of 2016, as a result of 11 percent sales growth in China. China sales in local currency grew approximately 17 percent in the third quarter compared to the same period last year. We expect full year 2016 sales in China to grow at a rate in excess of 16 percent in local currency driven by expected continued overall water heater market growth, market share gains, improved product mix and growth in sales of water treatment products at a rate significantly higher than 16 percent.

20. On February 2, 2017, A.O. Smith issued a press release announcing "record sales of \$2.69 billion and record net earnings of \$326.5 million, or \$1.85 per share, for 2016 compared with net earnings of \$282.9 million, or \$1.58 per share, the previous year." Again, the Company touted its success in China as the primary driver of the results, stating that "[s]ales in China grew 13 percent during 2016 and grew 19 percent when the impact from the stronger U.S. dollar is excluded." The press release continued in pertinent part:

"A. O. Smith had another excellent year, setting sales and earnings records thanks to continued healthy end markets for our consumer products in China and for boilers and commercial water heaters in the U.S.," Ajita G. Rajendra, chairman and chief executive officer, observed.

"In addition to the launch of several new products in China, we saw an increase in China water treatment sales of nearly 35 percent," Rajendra continued.

* * *

Rest of World segment

Sales of this segment increased 11 percent in 2016 to \$965.6 million compared with 2015 sales of \$866.1 million. *China sales increased 13 percent and grew 19 percent when the impact from the stronger U.S. dollar is excluded. An increase in demand/or water heaters and residential air purification products and 35 percent growth in A. O. Smith-branded water treatment product sales contributed to the strong growth in China.*

Operating earnings for this segment increased 14 percent in 2016 to \$129.1 million compared with \$113.0 million earned the prior year. Higher sales were partially offset by increased China selling, general and administrative (SG&A) expenses. Higher selling costs in China to support expansion in tier 2 and 3 cities, as well as higher advertising costs to support brand building, were the primary drivers of higher segment SG&A expenses. Currency translation reduced China earnings by approximately \$8 million. Segment operating margin was slightly higher at 13.4 percent in 2016 compared with 2015 segment operating margin of 13.0 percent.

Segment sales for the fourth quarter 2016 of \$268.1 million were 16 percent higher than the same period in the previous year. Sales in China increased 24 percent in the quarter, excluding the impact from the strengthening U.S. dollar. Continued demand for the company's consumer products in the region led by water treatment and air purification products contributed to the strong sales growth.

Segment operating earnings of \$38.2 million were 34 percent higher in the fourth quarter of 2016 than in the same three-month period in 2015, driven by the impact from higher China sales. Higher selling costs to support growth, higher advertising costs to support brand building and \$2.5 million due to currency translation, all in China, partially offset higher China sales. Segment operating margin for the period at 14.2 percent was higher than the fourth quarter of 2015 at 12.3 percent due to higher gross margins primarily driven by a more profitable mix of China products and improved profitability associated with sales of water treatment products in the 2016 quarter.

21. On February 17, 2017, A.O. Smith filed a Form 10-K, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 4Q16 and FY16 earnings and operating results, including for its China segment. The Form 10-K touted A.O. Smith's experience

and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

Sales in our Rest of World segment increased 11.5 percent, or \$99.5 million, in 2016 compared with the prior year. *A 12.5 percent increase in sales in China to \$887.9 million was the primary source of the increase. Excluding the appreciation of the U.S. dollar in 2016, sales in China increased 18.9 percent in 2016.*

We have operated in China/or more than 20 years. In that time, we have been aggressively expanding our presence while building A. O. Smith brand recognition in the residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, gas tankless and solar water heaters. We believe we are one of the leading suppliers of water heaters to the residential market in China, with a broad product offering including electric, gas, gas tankless, heat pump and solar units as well as combi boilers. Primarily for Asia, we also manufacture and market water treatment products and air purification products.

We sell water heaters in more than 9,000 retail outlets in China, of which over 2,500 exclusively sell our products. Our water treatment products and air purification products are sold in over 6,500 and 2,500 retail outlets in China, respectively. Our e-commerce sales continue to grow in China reaching nearly \$200 million in 2016.

22. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2016 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2016 were a record \$2,685.9 million surpassing 2015 sales of \$2,536.5 million by 5.9 percent. Excluding the impact from the appreciation of the U.S. dollar against the Chinese currency that occurred in 2016, our sales grew approximately eight percent in 2016. *The increase in sales in 2016 was primarily due to higher sales in China of water heaters, residential air purification products, as well as 35 percent sales growth of A. O. Smith-branded water treatment products. Sales in China grew 12.5 percent in 2016, and excluding the impact of the appreciation of the U.S. dollar, sales in China increased 18.9 percent in 2016.*

23. In addition, the 2016 Form 10-K stated that the Company was positioned to continue to grow its China business throughout 2017, stating in pertinent part:

Outlook

We expect our sales in China will continue to grow at a rate of approximately 15 percent in local currency terms in 2017 led by continued strong sales growth of water heaters, water treatment and air purification products. We project continued declines in the Chinese currency compared to the U.S. dollar resulting in a five percent, or \$40 million, headwind in 2017 sales, compared with the average rate in 2016....

Combining all these factors, we expect sales growth of between eight and 9.5 percent in 2017 and sales growth of between 9.5 and 11 percent measured in local currency in 2017 and earnings to be in the range of \$1.98 to \$2.08 per share for 2017. This does not include the potential impact of future acquisitions.

24. On April 27, 2017, A.O. Smith issued a press release again announcing "record" first quarter results on the back of purportedly strong China demand. The press release stated that the Company had achieved "first quarter net earnings of \$87.7 million or \$.50 per share on record first quarter sales of \$740.0 million." It continued in pertinent part:

Sales in the quarter ended March 31 grew approximately 16 percent compared with sales of \$636.9 million during the same period in 2016. Sales in China grew 20 percent during the first quarter 2017 or grew 27 percent when excluding the impact from the stronger U.S. dollar.

"The strength of both the U.S. water heater industry and our consumer product demand in China is encouraging," noted Chairman and Chief Executive Officer Ajita G. Rajendra. "Willi double digit sales growth in both operating segments in the quarter, A. O. Smith is starting the year on solid footing."

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 19 percent in the first quarter of 2017 to \$259.5 million from \$217.4 million in the year ago quarter. *Continued strong customer demand/or the company's premium products and a pre-buy in advance of a price increase related to steel and other cost inflation, drove China sales 27 percent higher as measured in local currency and over 20 percent higher as measured in U.S. dollars. Water treatment sales in China grew over 50 percent and air purification sales grew over 80 percent in local currency.*

25. On May 8, 2017, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 1Q17 earnings and operating results, including

for its China segment. The Form 10-Q highlighted A.O. Smith's product sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 19 percent in the first quarter of 2017 *as a result of 20 percent sales growth in China. China sales in local currency terms grew approximately 27 percent in the first quarter compared to the same period last year driven by higher demand/or our consumer products and by pre-buy by our customers in advance of a price increase related to steel and other costs.*

We expect full year 2017 sales in China to grow at a rate of over 15 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product sales growth at a rate significantly higher than 15 percent.

26. On July 26, 2017, A.O. Smith issued a press release again announcing "record second quarter net earnings" of \$92.4 million "on nearly 11 percent increase in sales." Once again the favorable results were attributable to the surge in Chinese demand for its products that the Company was purportedly experiencing. The press release continued in pertinent part:

"We continued to see solid demand for our premium products in China with sales growth in local currency of 20 percent, led by water treatment and air purification," commented Ajita G. Rajendra, chairman and chief executive officer. "Sales of our commercial water heaters and boilers in North America continued to be strong."

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 14 percent in the second quarter of 2017 to \$272.8 million from \$239.8 million in the year-ago quarter. *Continued strong customer demand for the company's premium products, as well as a price increase announced in the first quarter of 2017, drove China sales 20 percent higher in local currency. A. O. Smith branded water treatment sales grew 40 percent in local currency in the second quarter of 2017, and air purification product sales quadrupled.*

27. On August 8, 2017, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 2Q17 earnings and operating results,

including for its China segment. The Form 10-Q highlighted A.O. Smith's product sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 14 percent in the second quarter of 2017 compared to the same period last year as a result of 15 percent sales growth in China. *China sales in local currency terms grew approximately 20 percent in the second quarter driven by higher demand for our consumer products, led by water treatment and air purification, and pricing actions due to higher steel and other costs.*

We expect full year 2017 sales in China to grow compared to 2016 at a rate of almost 17 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, higher average selling prices and water treatment product sales growth at a rate significantly higher than 15 percent.

28. On October 25, 2017, A.O. Smith issued a press release again announcing "record third quarter net earnings" of \$93.7 million "on 10 percent increase in sales." Once again the press release stated that China was a driver of the growth, with defendant Rajendra quoted as saying: "Sales of our consumer products in China, particularly water treatment and air purification, contributed to our growth, as well." The press release continued in pertinent part:

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 12 percent in the third quarter of 2017 to \$270.1 million compared with the year-ago quarter. *Higher demand/or the company's premium consumer products, as well as pricing actions due to higher steel and oilier costs, drove China sales up nearly 13 percent.*

29. On November 6, 2017, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 3Q17 earnings and operating results, including for its China segment. The Form 10-Q stated that the Company's China sales were expected to continue to grow, stating:

In our Rest of World segment, we expect full year 2017 sales in China to grow compared to 2016 at a rate of over 15 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product sales growth at a rate significantly higher than 15 percent.

It continued in pertinent part:

Rest of World

Sales in our Rest of World segment were \$270.1 million in the third quarter of 2017 or \$29.8 million higher than sales of \$240.3 million in the third quarter of 2016. Sales in the first nine months of 2017 were \$802.4 million or \$104.8 million higher than sales of \$697.6 million in the first nine months of 2016. *China sales grew approximately 13 percent and 20 percent in local currency terms in the third quarter and first nine months of 2017, respectively, compared to same periods in the prior year, primarily due to higher sales of consumer products, particularly water treatment and air purification products.* Sales in China in both periods of 2017 also benefitted from pricing actions announced earlier this year due to higher steel and other costs. *China sales of A. O. Smith branded water treatment products grew 31 percent and China sales of air purification products doubled in the first nine months of 2017, compared to the same period last year.*

Rest of World segment earnings were \$33.8 million in the third quarter of 2017 or approximately nine percent higher than segment earnings of \$31.1 million in the third quarter of 2016. Segment earnings in the first nine months of 2017 of \$98.8 million were approximately nine percent higher than segment earnings of \$90.9 million in the first nine months of 2016.

30. On January 30, 2018, A.O. Smith announced "record sales of \$3 billion in 2017."

The press release stated that "[s]ales in China grew 16 percent during 2017 and grew 18 percent when the impact from the stronger U.S. dollar is excluded," which helped the Company achieve adjusted net earnings of \$378.3 million. The press release continued in pertinent part:

"2017 marked another record year for A. O. Smith," Ajita G. Rajendra, chairman and chief executive officer, announced. *"Our double-digit sales growth in 2017 was driven by continued strong demand for our consumer products in China and positive end markets for our water heaters and boilers in North America. China sales exceeded the \$1 billion milestone and were driven by 35 percent growth in water treatment sales and a near doubling of air purification sales. China on-line sales reached \$250 million in 2017."*

* * *

Rest of World segment

Sales of this segment increased 16 percent in 2017 to \$1.12 billion compared with 2016 sales of \$965.6 million. *China sales increased 16 percent and grew 18 percent when the impact from the stronger U.S. dollar is excluded.* An increase in demand for the company's consumer products in the region, led by water treatment and air purification products, and pricing actions primarily due to higher steel costs and higher fees paid to installers contributed to the strong sales

growth in China. Water heater and water treatment sales in India increased approximately \$8 million or over 40 percent in 2017 compared with 2016.

Earnings for this segment increased 16 percent in 2017 to \$149.3 million compared with \$129.1 million earned the prior year. Higher sales in China, including the price increase, were partially offset by higher steel costs, higher fees paid to installers and increased SG&A costs. Expansion of water treatment and air purification product retail outlets in tier 2 and 3 cities, higher advertising related to brand building in the company's newer product categories and higher water treatment product development engineering costs were the primary drivers of higher SG&A in China. Segment margin of 13.4 percent in 2017 was essentially the same as the prior year.

Segment sales for the fourth quarter 2017 of \$313.8 million were 17 percent higher than the same period in the previous year. *Sales in China increased 16 percent in the quarter*, driven by pricing actions primarily due to higher steel costs, higher fees paid to installers and higher demand for the company's consumer products in the region. Sales in India grew over 40 percent compared with the same period in 2016.

Segment earnings of \$50.8 million were 33 percent higher in the fourth quarter of 2017 compared with the same three-month period in 2016, driven by the impact from higher India sales and China sales, including the price increase. Higher steel costs and higher fees paid to installers partially offset the impact of higher China sales. Segment margin for the period was 16.2 percent compared with 14.2 percent in 2016, primarily due to improved margin for the company's water treatment products sold in China, lower China selling and advertising costs as a percent of sales and improved performance in India.

31. On February 16, 2018, A.O. Smith filed a Form 10-K, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 4Q17 and FY17 earnings and operating results, including for its China segment. The Form 10-K touted A.O. Smith's experience and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

Sales in our Rest of World segment increased 15.6 percent, or \$150.7 million, in 2017 compared with the prior year. *A 15.9 percent increase in sales in China to over \$1 billion was the primary source of the increase. Excluding the appreciation of the U.S. dollar, sales in China increased 17.9 percent in 2017.*

We have operated in China/or more titan 20 years. In that time, we have been aggressively expanding our presence while building A. O. Smith brand recognition in the residential and commercial markets. The Chinese water heater

market is predominantly comprised of electric wall-hung, gas tankless, combi-boiler and solar water heaters. *We believe we are one of the leading suppliers of water heaters to the residential market in China in dollar terms, with a broad product offering including electric, gas tankless, heat pump and combi boilers as well as solar units.* We also manufacture and market water treatment products and air purification products, primarily in China.

We sell water heaters in more than 8,000 retail outlets in China, of which over 2,900 exclusively sell our products. Our water treatment products and air purification products are sold in over 7,400 and 3,500 retail outlets in China, respectively. Our e-commerce sales continued to grow in China, to approximately \$250 million in 2017.

32. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2017 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2017 were a company record \$2,997 million surpassing 2016 sales of \$2,686 million by 11.6 percent. *The increase in sales in 2017 was primarily due to higher sales in China as well as higher sales of water heaters and boilers in North America.* Sales in China grew 15.9 percent to over \$1 billion in 2017, and excluding the impact of the appreciation of the U.S. dollar, sales in China increased 17.9 percent in 2017.

33. On April 25, 2018, A.O. Smith issued a press release announcing "double digit earnings growth on record first quarter sales" of \$788 million which contributed to net quarterly earnings of \$98.8 million. The press release continued in pertinent part:

Rest of World segment

First quarter sales for the Rest of World segment increased 13 percent over the 2017 first quarter to \$293.8 million. *In China, sales increased 13 percent including approximately \$21 million of benefit from currency translation due to the appreciation of the China currency compared with the prior year. In local currency terms, sales grew four percent and were negatively impacted by a pre-buy in the fourth quarter of 2017.* Pricing actions in mid-2017, primarily due to higher steel and installation costs, as well as higher demand for gas tankless water heaters and water treatment products, contributed to higher sales and were partially offset by a significant decline in air purification product sales primarily due to improved air quality in China.

First quarter segment earnings of \$36.1 million were approximately 11 percent higher than the \$32.5 million earned in last year's first quarter. Higher China sales, including the price increase, were partially offset by higher steel costs,

selling and engineering expenses associated with new product development and the negative impact to earnings from lower air purification product sales.

34. On May 7, 2018, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 1Q18 earnings and operating results, including for its China segment. The Form 10-Q stated that "[s]ales in the first quarter of 2018 were \$788 million, approximately 6.5 percent higher than sales of \$740 million in the first quarter of 2017" *"primarily due to continued demand for our consumer products in China and positive end markets for our boilers in North America."* The Form 10-Q also stated that the Company's China sales were expected to continue to grow, stating:

In our Rest of World segment, we expect sales in China to grow in 2018 at a rate of approximately nine to ten percent in local currency, or over 14 percent in U.S. dollar terms, as we believe tankless water heater market growth, geographic expansion and growth in sales of our water treatment products will contribute to our growth.

35. On July 25, 2018, A.O. Smith issued a press release announcing "double-digit sales and earnings growth in second quarter" of \$833.3 million and \$92.4 million, respectively. The press release continued in pertinent part:

Rest of World segment

Second quarter sales for the Rest of World segment increased 13 percent to \$308.1 million compared with sales of \$272.8 million in the 2017 second quarter. Sales in China increased 12 percent in the second quarter, including a currency translation benefit of approximately \$19 million. China sales grew four percent in local currency. Higher sales of gas tankless water heaters and water treatment products, as well as pricing actions effective in mid-2017, were partially offset by lower sales of air purification products and e-commerce sales compared with the prior year.

36. On August 6, 2018, A.O. Smith filed a Form 10-Q, signed by defendant Rajendra and defendant Kita, which reiterated the Company's 2Q18 earnings and operating results, including for its China segment.

37. On October 30, 2018, A.O. Smith issued a press release announcing "third quarter net earnings of \$104.6 million or \$0.61 per share on third quarter sales of \$754.1 million." While

the press release discussed "weaker housing growth in China," it quoted defendant Wheeler, who had recently replaced defendant Rajendra as CEO, as stating: "A bright spot in China was our sales of water treatment products, which grew significantly in the quarter This growth reaffirms our belief of the growing consumer desire for safe drinking water in that country, as well as our capabilities to bring the best products to the market." It continued in pertinent part:

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, *increased approximately one percent in the third quarter of 2018 to \$274.1 million compared with the year-ago quarter. Higher sales of water treatment and air purification products in China were partially offset by a decline in electric water heater sales compared with the prior year. Currency translation reduced sales by approximately \$6 million compared with the third quarter 2017.*

Segment earnings were approximately 16 percent higher at \$39.1 million compared with the third quarter of 2017, primarily due to lower expenses associated with employee incentive programs in China and smaller losses in India. As a result, third quarter 2018 segment margin of 14.3 percent was significantly higher than the 12.5 percent segment margin achieved in the same period in 2017.

38. On November 8, 2018, A.O. Smith filed a Form 10-Q, signed by defendant Wheeler and defendant Kita, which reiterated the Company's 3Q18 earnings and operating results, including for its China segment. The Form 10-Q continued in pertinent part:

In our Rest of World segment, we expect sales in China to grow in 2018 at a rate of three percent in local currency terms, and five percent in U.S. dollar terms, lower than our previous guidance due to slower than expected housing growth caused by deteriorating consumer confidence related to a weakening economy...

Combining all of these factors, we expect our consolidated sales to grow approximately seven percent in 2018.

We preliminarily project our 2019 sales growth in China in local currency will be three percent compared to 2018, as inventory levels remain elevated into 2019 due to slower housing growth. Further, we expect headwinds of approximately \$50 million to sales and over \$7 million to earnings in China due to the depreciation of the China currency compared to the U.S. dollar in 2019 compared to 2018. Combining our China projection, with the benefit of a full year of pricing actions for North America water heaters, a full year of sales of water treatment products to Lowe's and our projection that the remainder of our products will have sales growth similar to 2018, we project our organic growth: in 2019 will

be 5.5 to seven percent in local currency terms and/or to 5.5 percent in U.S. dollar terms.

39. On January 29, 2019, A.O. Smith issued a press release announcing "record sales and net earnings in 2018" of \$3.2 billion and \$44.2 million, respectively. The press release stated that the growth was driven, in part, by "water treatment products in China" as "[t]otal China sales grew approximately four percent." The release quoted defendant Wheeler as highlighting the Company's exponential growth in global water treatment sales, which had been driven primarily by sales in China: "In seven years we have been able to grow our global water treatment sales from approximately \$35 million to \$400 million." It continued in pertinent part:

Rest of World segment

Sales of this segment increased five percent in 2018 to \$1.2 billion compared with 2017 sales. China sales increased nearly two percent on a local currency basis. The Chinese currency favorably impacted the translation of China sales by approximately \$23 million. In China, higher water treatment product sales were partially offset by lower sales of electric water heaters and air purification products. Water heater and water treatment product sales in India increased approximately \$8 million, or over 30 percent, in 2018 compared with 2017.

40. On February 15, 2019, A.O. Smith filed a Form 10-K, signed by defendant Wheeler and defendant Kita, which reiterated the Company's 4Q18 and FY18 earnings and operating results, including for its China segment. The Form 10-K highlighted A.O. Smith's experience and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

We have operated in China/or more than 20 years. In that time, we have been aggressively expanding our presence while building A. O. Smith brand recognition in the residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, gas tankless, combi• boiler, heat pump and solar water heaters. We believe we are one of the leading suppliers of water heaters to the residential market in China in dollar terms. We manufacture and market water treatment products, primarily residential reverse osmosis products. We also manufacture and market air purification products in China.

We sell water heaters in more than 9,000 retail outlets in China, of which over 2,800 exclusively sell our products. Our water treatment products and air purification products are sold in over 7,500 and 3,500 retail outlets in China, respectively.

41. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2018 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2018 were a Company record \$3,188 million surpassing 2017 sales of \$2,997 million by 6.4 percent. *The increase in sales in 2018 was primarily due to pricing actions related to higher steel costs and higher sales of boilers and residential water heaters in the U.S. as well as higher sales of water treatment products in China. Our global water treatment sales grew to approximately \$400 million in 2018. Sales in China grew four percent in 2018.* Excluding the impact of the appreciation of the U.S. dollar against the Chinese currency, our sales in China increased almost two percent in 2018. Our sales in 2017 were higher than 2016 sales of \$2,686 million by 11.6 percent, primarily due to higher sales in China as well as higher sales of water heaters and boilers in North America. Our sales in China grew 15.9 percent in 2017 to over \$1 billion, and excluding the impact of the appreciation of the U.S. dollar against the Chinese currency, sales in China grew 17.9 percent in 2017 compared to 2016.

42. The statements referenced in iJi16-41 above were materially false and/or misleading when made because they failed to disclose adverse facts pertaining to the Company's business, operations and financial condition, which were known to or recklessly disregarded by defendants as follows:

(a) that A.O. Smith had undisclosed business connections and entanglements with UTP through which it funneled up to 75% of its China product sales;

(b) that A.O. Smith had used UTP to engage in channel stuffing by artificially inflating inventories purportedly sold through distributors that were not based on consumer demand, thereby approximately doubling the normal level of inventory at such distributors;

(c) that A.O. Smith had used its UTP relationship to artificially inflate the sales figures it reported to investors by as much as 8% and to conceal worsening sales trends that the Company was experiencing in China;

(d) that A.O. Smith's sales growth had been primarily in lower margin products as its higher priced products were being undercut by competition in "second-tier" Chinese cities, causing the Company to experience significant margin pressures;

(e) that A.O. Smith had increased its cash reserves in China to over \$530 million in furtherance of its channel stuffing and sales manipulation scheme, encumbering the Company's ability to repatriate the cash or use it for capital expenditures; and

(f) that, as a result of (a)-(e) above, A.O. Smith's business, operations, and prospects were significantly worse than publicly represented and the Company was poised for sales and earnings declines in China, its most important international market.

43. In addition, Item 303 of SEC Regulation S-K, 17 C.F.R. §229.303(a)(3)(ii) ("Item 303") required the 2016 Form 10-K, 2017 Form 10-K and 2018 Form 10-K to "[d]escribe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations." Defendants' failure to disclose their use of an undisclosed distribution partner to engage in channel stuffing and to artificially inflate A.O. Smith's China sales and earnings results was a violation of Item 303 because it was a known trend and uncertainty that was likely to, and did, have a material unfavorable impact on the Company's revenues and income from continuing operations.

44. Then, on April 30, 2019, A.O. Smith reported disappointing financial results for its first fiscal quarter of 2019. Quarterly sales declined 5% to \$748.2 million, while net quarterly earnings declined approximately 7% to \$89.3 million. The primary reasons for the disappointing results were adverse business trends in China and plummeting Chinese sales, which had been masked by defendants' prior misstatements. Quarterly sales in A.O. Smith's Rest of World segment fell 21% to \$232.1 million, including an 18% decline in Chinese sales on a local currency

basis. Even more shocking, quarterly earnings for the segment fell *more than 65%* year-over-year to only \$12.3 million.

45. On this news, the price of A.O. Smith common stock fell 6% to \$52.57 per share on abnormally high volume of over 4.8 million shares.

46. However, because investors did not know the full truth about A.O. Smith's use of an undisclosed distribution partner to inflate its earnings and sales results in China, the price of A.O. Smith stock remained artificially inflated. Instead, defendants continued to conceal the scheme, for example by playing off, during an April 30, 2019 earnings call, the weakness in China as temporary and related to macro events with improvement expected in the second half of the year.

47. Then, on May 16, 2019, J Capital Research USA LLC issued a scathing report on A.O. Smith's China operations and undisclosed relationship with UTP (the "J Capital Report"). The 66-page report charged A.O. Smith with inflating its sales and earnings figures and concealing adverse business trends in China through its undisclosed distributor relationship with UTP. The report also stated that A.O. Smith's purported \$539 million in cash in China had been tied up in the scheme. The report summarized its findings in part as follows:

Pleading the fifth on China operations: Despite never appearing in the financial filings or being mentioned on conference calls, Jiangsu UTP Supply Chain is involved in almost every aspect of A.O. Smith's China business. The relationship is public knowledge in China. UTP's involvement spans the acquisition of raw materials, the hiring of labor, potentially co-owning factories, marketing, and most notably "accepting" inventory and financing AOS distributors. We estimate that UTP may be responsible for as much as 75% of AOS China sales.

The UTP relationship has obscured China business performance and financial statements: The UTP partnership has allowed AOS to inflate gross margins and mask the actual China revenue slowdown through distributor-financed channel stuffing. We also believe that the irreconcilable capex, R&D and asset inventory accounts are being used as cookie jars to preserve the "integrity" of the financial statements while hiding UTP's involvement. Our detailed distributor channel checks indicate China revenue will fall by as much as 21% in 2019 vs management's claims of a 6-8% decline.

Is the cash really there? We believe that A.O. Smith does not actually have access to \$539 million that reportedly sits in China-about 84% of the company's total cash at yearend 2018. We have conducted dozens of interviews in China and believe that AOS may have used its cash for distributor loans to prop up sales. That would mean the money is in escrow and cannot be touched until loans are repaid. What's more, distributor loans are at risk in a weakening market. Chinese distributors of AOS products - financially imperiled companies - are being financed at 18% to take AOS inventory, and many are holding six months of inventory. These companies are at risk of default - and AOS could be on the hook.

China headwinds are everywhere: In Q1, AOS reported a 66% drop in Rest of World earnings due to China declines but said the drop is temporary. We disagree. During China's boom years, AOS benefited from selling a premium product at a mid to high price point through direct channels in Tier 1 cities. To offset numerous steel and rental price increases, AOS has continuously increased the price of its heaters, until the appliances reached a price point unobtainable for some of the original purchase base. The higher-priced product has been a particularly poor fit for Tier 2-4 cities, the next leg of AOS's China growth strategy, and the price-sensitive online channel continues to take share from the direct channel. AOS has recently launched new products at their original price points, but these "startups" are just ramping up and will carry much lower margins for the foreseeable future. Distributors believe the new product releases are just a way to discount old stock and force new inventory into the channels. These product/channel challenges are presently being compounded by a weakening Chinese economy and the U.S.-China trade spat's impact on selling an American-branded product in China.

48. On this news, the price of A.O. Smith common stock fell 6% to \$45.12 per share on abnormally high volume of over 13.5 million shares.

49. Although the J Capital Report was issued by a research firm with an apparent short interest in A.O. Smith stock, the report was well documented and supported with photographs, "dozens" of witness interviews, government records and other information that supported its allegations. An additional research firm, Spruce Point Capital, also issued a series of tweets supporting the reports allegations and conclusions.

50. While A.O. Smith issued a press release purportedly denying the allegations, in so doing it admitted that the Company did in fact have substantial business interests in China with UTP. Following this unsatisfactory response by the Company, the price of A.O. Smith stock did not recover, but instead continued to fall closing at \$43.26 per share on May 20, 2019, *36% below*

the Class Period high of more than \$68 per share. At least one analyst firm also subsequently downgraded the stock. The market reaction to A.O. Smith's attempted denials lends further credibility to the J Capital Report.

51. As a result of defendants' wrongful acts and omissions, plaintiff and the Class purchased A.O. Smith common stock at artificially inflated prices and suffered significant losses and were damaged thereby.

NO SAFE HARBOR

52. Defendants' "Safe Harbor" warnings accompanying A.O. Smith's reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. Because most of the false and misleading statements related to existing facts or conditions, the Safe Harbor has no applicability. To the extent that known trends should have been included in the Company's financial reports prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), they are excluded from the protection of the statutory Safe Harbor. 15 U.S.C. §78u-5(b)(2)(A).

53. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer and/or director of A.O. Smith who knew that the FLS was false. In addition, the FLS were contradicted by existing, undisclosed material facts that were required to be disclosed so that the FLS would not be misleading. Finally, most of the purported "Safe Harbor" warnings were themselves misleading because they warned of "risks" that had already materialized or failed to provide any meaningful disclosures of the relevant risks.

ADDITIONAL SCIENTER ALLEGATIONS

54. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or

disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents and actions intended to manipulate the market price of A.O. Smith common stock as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding A.O. Smith, their control over, and/or receipt or modification of A.O. Smith's allegedly materially misleading misstatements, and/or their associations with the Company which made them privy to confidential proprietary information concerning A.O. Smith, participated in the fraudulent scheme alleged herein.

55. The adverse developments at issue also impacted the Company's most important revenue streams and derived from the Company's most important international market, China. The undisclosed adverse facts also involved the Company's most important partner in China, UTP, who by some estimates accounted for 75% of A.O. Smith's China sales. Furthermore, A.O. Smith has expressly stated that the Company's China operations were overseen by the Individual Defendants as the Company's top executives during the Class Period and, further, that their involvement included hands-on oversight and business trips to China. As such, the Individual Defendants knew or were reckless in not knowing of the undisclosed facts detailed herein.

LOSS CAUSATION

56. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of A.O. Smith common stock and operated as a fraud or deceit on purchasers of A.O. Smith common stock. As detailed above, when the truth about A.O. Smith's misconduct was revealed over time, the value of the Company's stock declined precipitously as the prior artificial inflation no longer propped up the stock's prices. The declines in the price of A.O. Smith common stock were the direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market.

The timing and magnitude of the stock price declines negate any inference that the losses suffered by plaintiff and other members of the Class were caused by changed market conditions, macroeconomic or industry factors, or company-specific facts unrelated to the defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by plaintiff and other Class members, was a direct result of defendants' fraudulent scheme to artificially inflate the prices of the Company's stock and the subsequent significant decline in the value of the Company's stock when defendants' prior misrepresentations and other fraudulent conduct were revealed.

57. At all relevant times, defendants' materially false and misleading statements or omissions alleged herein directly or proximately caused the damages suffered by plaintiff and the other Class members. Those statements were materially false and misleading through their failure to disclose a true and accurate picture of A.O. Smith's business, operations and financial condition, as alleged herein. Throughout the Class Period, defendants issued materially false and misleading statements and omitted material facts necessary to make defendants' statements not false or misleading, causing the prices of A.O. Smith's common stock to be artificially inflated. Plaintiff and other Class members purchased A.O. Smith stock at those artificially inflated prices, causing them to suffer damages as complained of herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD-ON-THE-MARKET DOCTRINE

58. At all relevant times, the market for A.O. Smith common stock was an efficient market for the following reasons, among others:

(a) A.O. Smith stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) according to the Company's Form 10-Q, filed on May 9, 2019, the Company had approximately 141 million common shares outstanding as of April 30, 2019, demonstrating a very active and broad market for A.O. Smith common stock;

(c) as a regulated issuer, A.O. Smith filed periodic public reports with the SEC;

(d) A.O. Smith regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services, the Internet and other wide-ranging public disclosures; and

(e) unexpected material news about A.O. Smith was rapidly reflected in and incorporated into the Company's stock price during the Class Period.

59. As a result of the foregoing, the market for A.O. Smith common stock promptly digested current information regarding A.O. Smith from publicly available sources and reflected such information in A.O. Smith's stock prices. Under these circumstances, all purchasers of A.O. Smith common stock during the Class Period suffered similar injury through their purchase of A.O. Smith common stock at artificially inflated prices, and a presumption of reliance applies.

CLASS ACTION ALLEGATIONS

60. This is a class action on behalf of all purchasers of A.O. Smith common stock during the Class Period who were damaged thereby (the "Class"). Excluded from the Class are defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which defendants have or had a controlling interest.

61. Common questions of law and fact predominate and include: (a) whether defendants violated the Exchange Act; (b) whether defendants omitted and/or misrepresented material facts; (c) whether defendants knew or recklessly disregarded that their statements were false; (d) whether the prices of A.O. Smith common stock were artificially inflated during the Class Period; and (e) the extent of and appropriate measure of damages.

62. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, shares of A.O. Smith common stock were actively traded on the NYSE. Upon information and belief, these shares are held by hundreds or thousands of individuals located geographically throughout the country.

63. Plaintiff's claims are typical of those of the Class. Prosecution of individual actions would create a risk of inconsistent adjudications. Plaintiff will adequately protect the interests of the Class. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

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

64. Plaintiff incorporates ¶¶ 1-63 by reference.

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

66. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they, directly and indirectly, by the use of the means or instrumentality of interstate commerce, or the mails or facility of a national securities exchange:

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

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

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

67. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for A.O. Smith common stock. Plaintiff and the Class would not have purchased A.O. Smith common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

68. By virtue of the foregoing, defendants have violated §10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

69. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of A.O. Smith common stock during the Class Period.

COUNT II

For Violation of §20(a) of the Exchange Act Against the Individual Defendants

70. Plaintiff incorporates paragraphs 1-69 by reference.

71. During the Class Period, the Individual Defendants acted as controlling persons of A.O. Smith within the meaning of §20(a) of the Exchange Act. By virtue of their share ownership, executive and Board positions, and their culpable participation, as alleged above, the Individual Defendants had the power to influence and control and did, directly or indirectly, influence and control the decision-making of the Company, including the content and dissemination of the various statements which plaintiff contends were false and misleading as detailed herein.

72. The Individual Defendants were provided with or had unlimited access to the Company's internal reports, press releases, public filings, and other statements alleged by plaintiff

to be misleading prior to or shortly after these statements were issued, and had the ability to prevent the issuance of the statements or cause them to be corrected. In particular, the Individual Defendants had direct involvement in and responsibility over the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein.

73. By reason of such wrongful conduct, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act.

74. As a direct and proximate result of these defendants' wrongful conduct, plaintiff

and the other members of the Class suffered damages in connection with their purchases of the

Company's common stock during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

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

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

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

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

JURY DEMAND

Plaintiff demands a trial by jury.