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12 UNITED STATES DISTRICT COURT
13
14 NORTHERN DISTRICT OF CALIFORNIA

15	CITY OF ROSEVILLE EMPLOYEES')	Case No.
15	RETIREMENT SYSTEM, Individually and on)	
16	Behalf of All Others Similarly Situated,)	<u>CLASS ACTION</u>
16)	
17	Plaintiff,)	COMPLAINT FOR VIOLATIONS OF THE
17)	FEDERAL SECURITIES LAWS
18	vs.)	
18)	
19	APPLE INC., TIMOTHY D. COOK and)	
19	LUCA MAESTRI,)	
20)	
20	Defendants.)	<u>DEMAND FOR JURY TRIAL</u>

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INTRODUCTION

1
2 Plaintiff City of Roseville Employees' Retirement System ("plaintiff"), individually and on
3 behalf of all others similarly situated, by plaintiff's undersigned counsel, alleges the following based
4 upon personal knowledge as to plaintiff and plaintiff's own acts and upon information and belief as
5 to all other matters based on the investigation conducted by and through plaintiff's counsel, which
6 included, among other things, a review of Securities and Exchange Commission ("SEC") filings by
7 Apple Inc. ("Apple" or the "Company"), as well as media and analyst reports about the Company.
8 Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth
9 herein after a reasonable opportunity for discovery.

BACKGROUND AND SUMMARY OF THE ACTION

10
11 1. This is a securities fraud class action on behalf of all purchasers of Apple common
12 stock between November 2, 2018 and January 2, 2019, inclusive (the "Class Period"), seeking to
13 pursue remedies under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange
14 Act"), and SEC Rule 10b-5 promulgated thereunder.

15 2. Apple is a multinational technology company headquartered in Cupertino, California
16 that designs, develops, and sells consumer electronics, computer software, and online services. The
17 Company's most well-known products include its iconic iPhone smartphones, the iPad tablet
18 computer, the Mac personal computer, the iPod portable media player, the Apple Watch smartwatch,
19 the Apple TV digital media player, and the HomePod smart speaker.

20 3. The multiple versions and models of Apple's iPhone have served as the Company's
21 flagship product, utilizing Apple's iOS operating system, powering applications including Siri, an
22 intelligent assistant, and Apple Pay, Touch ID, and Face ID on qualifying devices. Sales of iPhones
23 generated approximately two-thirds of Apple's 2018 revenue.¹ Since its original launch in 2007
24 through 2015, the Company released, on average, one new iPhone model per year, typically to great
25 fanfare and high demand. Apple also aggressively increased the pricing of its iPhones from the \$99-

26
27 ¹ Apple's fiscal year ends in September of each calendar year. Apple's 2018 fiscal year began on
28 September 31, 2017 and ended on September 29, 2018.

1 \$399 range maintained through 2013 to a top offering price of \$1,449 for the Apple XS Max with
2 512 gigabytes in September 2018.

3 4. The Company and its products enjoy significant geographic reach, including in
4 emerging markets. Greater China, for example – a region that includes mainland China, Hong Kong,
5 and Taiwan – is Apple’s third-largest market after the United States and Europe, accounting for \$52
6 billion in sales in Apple’s fiscal year 2018 (“FY18”), ended September 29, 2018 – nearly 20% of
7 Apple’s total FY18 annual sales. But, while China represents the Company’s highest growth market,
8 China is also among its most competitive. Chinese upstart brands such as Huawei, Xiaomi and
9 Oppo offer similar looking all-screen phones for much lower prices. At the same time that Apple’s
10 iPhone sales revenues were growing in China due to Apple’s outsized price increases, Chinese
11 smartphone manufacturers were launching scores of much lower priced smartphones with greater
12 advancements throughout the Chinese market, thus competing with Apple’s iPhone offerings and
13 diminishing the Company’s pricing power.

14 5. In addition, Apple’s business in China is also more susceptible to geopolitical trade
15 maneuvers by the United States and China, and, more recently, tariffs imposed by the United States
16 have also threatened sales (though Apple has sought to deny or minimize any perceived impact).
17 Specifically, on April 3, 2018, the Trump Administration published a list of \$50 billion in Chinese
18 products under consideration for a 25% tariff and, on July 6, 2018, implemented the first \$34 billion
19 of those import tariffs. On July 10, 2018, the Trump Administration announced a list of another
20 \$200 billion in Chinese products that would be subject to a 10% import tariff. On July 20, 2018,
21 President Trump announced he was ready to impose tariffs on all U.S. imports from China, which
22 totaled \$504 billion in 2017. On August 7, 2018, the Trump Administration subjected the remaining
23 \$16 billion of the original \$50 billion list of Chinese imports to the 25% tariff effective August 23,
24 2018. On September 17, 2018, the Trump Administration published a list of another \$200 billion in
25 Chinese products that would be subject to a 10% import tariff, which tariffs went into effect on
26 September 24, 2018.

27 6. In the midst of the ongoing trade war between the United States and China, on
28 September 12, 2018, Apple introduced three new phones: the iPhone XR (priced at

1 \$749/\$799/\$899), the iPhone XS (priced at \$999/\$1149), and the iPhone XS Max (priced at
2 \$1099/\$1249/\$1449). Unlike the prior iPhone releases, the 2018 iPhones were not viewed as having
3 significant technological advances beyond the iPhone X released in late 2017 (priced at
4 \$999/\$1149). The iPhone XS and XS Max that were launched and began shipping in September
5 2018 featured a Super Retina OLED display, an all-screen stainless steel and glass design, faster
6 processors and enhanced cameras. The highest gigabyte version of the iPhone XS Max launched at a
7 price of \$1,449 – \$300 more than the 2017 highest gigabyte version of the iPhone X. Meanwhile,
8 Chinese manufacturers like Huawei, Oppo, and Xiaomi, which have since commandeered 24.6%,
9 20.5%, and 13.6% of the Chinese market, respectively, were slashing Apple’s Chinese market share
10 to 7.5% by offering arguably more innovative features for hundreds of dollars less per phone. For
11 instance, Huawei’s P20 Pro sells for approximately \$800 in China and Xiaomi’s MIX 2S sells for
12 approximately \$500 in China.

13 7. The strength of the U.S. dollar and the high price of iPhones, combined with a
14 declining Chinese economy, placed the iPhone out of reach of many Chinese consumers who might
15 otherwise have upgraded – at the same time that many less expensive Chinese smartphones were
16 flooding the market.

17 8. Making matters worse, in December 2017, Apple admitted that it had been
18 intentionally degrading, or “throttling,” the performance of the batteries in older iPhones via
19 software “updates.” This battery “throttling” had surreptitiously created artificial demand for new
20 premium priced iPhones from consumers who believed their poorly performing iPhones were
21 outdated and thus needed to be replaced. In order to stymie customer outrage over its conduct,
22 starting in January 2018, Apple dramatically cut the price of iPhone battery replacements from \$79
23 to \$29 ““for anyone with an iPhone 6 or later whose battery need[ed] to be replaced, available
24 worldwide through December 2018”” – right as Apple would be debuting its three new iPhones.

25 9. Notwithstanding the impact of slowing economic growth in China, geopolitical
26 pressures caused by U.S.-China sales tariffs, and the Company’s ability to compel unnecessary
27 iPhone upgrades on customers, Apple issued a series of materially false and misleading statements in
28 November 2018 concerning demand for iPhones and Apples pricing power for its hardware

1 offerings, including its new iPhones launched in September 2018, in particular in China. For
2 example, on November 1, 2018, Apple reported its fourth quarter and FY 18 financial results for the
3 period ended September 29, 2018. The Company boasted that “[o]ver the past two months, [it had]
4 delivered huge advancements for [its] customers through new versions of iPhone, Apple Watch, iPad
5 and Mac as well as [its] four operating systems,” and that as a result, it had “***enter[ed] the holiday***
6 ***season with [its] strongest lineup of products and services ever.***” Accordingly, based in large part
7 on this lineup of products, on November 1, 2018 – more than one-third of the way through Apple’s
8 first quarter of 2019 (“1Q19”) – Apple set its 1Q19 revenue expectations in a range of \$89 billion to
9 \$93 billion and its gross profit margins at 38% to 38.5%.

10 10. During a conference call for analysts and investors held later that same evening, when
11 asked whether the U.S.-China trade tariffs and trade tariff threats were having any impact on demand
12 for iPhones in China, defendant Timothy D. Cook (“Cook”) assured investors that the only
13 “emerging markets that [Apple was] seeing pressure in [were] markets like Turkey, India, Brazil,
14 [and] Russia . . . where currencies ha[d] weakened.” Cook added, however, “[i]n relation to China
15 specifically, ***I would not put China in that category.*** Our business in China was very strong last
16 quarter. We grew 16%, which we’re very happy with. iPhone, in particular, was very strong double-
17 digit growth there.”

18 11. In addition to the Company’s 1Q19 financial outlook, during the November 1, 2018
19 conference call, the Company surprised investors by announcing that Apple would no longer
20 disclose unit sales for iPhones and other hardware, asserting that such data was no longer relevant
21 for investors to evaluate the Company’s financial performance, all the while assuring investors that
22 despite the decision to withhold unit sales data, as in the past, the Company would still experience
23 strong performance:

24 [S]tarting with the December quarter, ***we will no longer be providing unit sales data***
25 ***for iPhone, iPad and Mac. . . . As we accomplish these objectives, strong financial***
results follow.

26 ***As demonstrated by our financial performance in recent years,*** the number
27 of units sold in any 90-day period is not necessarily representative of the underlying
28 strength of our business. ***Furthermore, our unit of sale is less relevant for us today***
than it was in the past

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