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15 **UNITED STATES DISTRICT COURT**  
16 **SOUTHERN DISTRICT OF CALIFORNIA**  
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SECURITIES AND EXCHANGE COMMISSION,
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Case No. '21CV0999 JLS MDD

Plaintiff,

**COMPLAINT**

vs.

MOHAMMED A. BARI,

Defendant.

Plaintiff Securities and Exchange Commission (“SEC”) alleges:

**JURISDICTION AND VENUE**

1. The Court has jurisdiction over this action pursuant to Sections 21(d)(1), 21(d)(3)(A), 21A and 27(a) of the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d), 78u-1 & 78aa.

2. Defendants have, directly or indirectly, made use of the means or

1 instrumentalities of interstate commerce, of the mails, or of the facilities of a national  
2 securities exchange in connection with the transactions, acts, practices and courses of  
3 business alleged in this complaint.

4 3. Venue is proper in this district pursuant to Section 27(a) of the Exchange  
5 Act, 15 U.S.C. § 78aa(a), because certain of the transactions, acts, practices and  
6 courses of conduct constituting violations of the federal securities laws occurred  
7 within this district. In addition, venue is proper in this district because Defendant  
8 Mohammed A. Bari resides in this district.

9 **SUMMARY**

10 4. This case involves unlawful insider trading by Defendant Mohammed A.  
11 Bari, M.D. (“Dr. Bari”) in the securities of Karuna Therapeutics, Inc. (“Karuna”), a  
12 biopharmaceutical company. Dr. Bari purchased Karuna stock shortly before Karuna  
13 announced highly positive results from a clinical trial, which precipitated a significant  
14 increase in Karuna’s stock price.

15 5. Dr. Bari is a medical doctor with extensive experience conducting  
16 clinical-stage trials of pharmaceutical drugs. He was hired as a medical investigator  
17 for the Phase 2 clinical trial of KarXT, a drug that Karuna developed to treat acute  
18 psychosis in patients with schizophrenia (the “KarXT Trial”).

19 6. From November 14, 2019 to November 17, 2019, representatives of  
20 Karuna provided Dr. Bari with confidential information about the results of the  
21 KarXT Trial, including that KarXT had proven both safe and effective during that  
22 trial and that Karuna was “thrilled” with the results. Karuna shared that information  
23 with Dr. Bari pursuant to a confidentiality agreement.

24 7. Between November 15, 2019 and November 17, 2019, based on the  
25 nonpublic information provided to him by Karuna, Dr. Bari placed several orders to  
26 purchase shares of Karuna common stock, ultimately acquiring 1,620 shares in total.

27 8. On Monday, November 18, 2019, before the stock market opened,  
28 Karuna publicly announced the results of the KarXT Trial. The price of Karuna

1 common stock increased from \$17.68 at the close on Friday, November 15 to \$96 at  
2 the close on November 18, an increase of more than 440 percent.

3 9. Over the next two days, Dr. Bari sold all 1,620 of the shares he had  
4 purchased based on non-public information that he received from Karuna. He  
5 obtained \$119,217 in profits from that trading – a gain of more than 300 percent in  
6 less than one week.

7 10. Dr. Bari purchased those shares of Karuna stock in breach of his legal  
8 duties to Karuna. He obtained material, non-public information from Karuna in his  
9 role as a medical investigator for the KarXT Trial and pursuant to a confidentiality  
10 agreement in place for that trial. He traded on the basis of that information, gaining  
11 an unlawful advantage over other investors.

12 11. By engaging in the conduct alleged in this Complaint, Dr. Bari violated  
13 the antifraud provisions of the federal securities laws, specifically, Section 10(b) of  
14 the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated under the  
15 Exchange Act, 17 C.F.R. § 240.10b-5.

### 16 THE DEFENDANT

17 12. **Mohammed A. Bari**, age 64, is a medical doctor who resides in Rancho  
18 Santa Fe, California. He was a medical investigator in the Phase 2 clinical trial of  
19 KarXT. He has extensive experience as a medical investigator in clinical trials.

### 20 OTHER RELEVANT ENTITY

21 13. **Karuna Therapeutics, Inc.** is a pharmaceutical company based in  
22 Boston, Massachusetts. At all times relevant to this complaint, shares of Karuna  
23 common stock traded on the NASDAQ stock market under the ticker symbol  
24 “KRTX.”

### 25 THE ALLEGATIONS

#### 26 **A. Karuna Engages Dr. Bari As An Investigator For The KarXT Trial**

27 14. In early 2018, Karuna engaged a contract research organization to act as  
28 its managing agent for the KarXT Trial (the “Managing Agent”). The Managing

1 Agent agreed to identify and engage clinical providers to assist in conducting the  
2 KarXT Trial on Karuna's behalf. As part of that engagement, the Managing Agent  
3 agreed not to use or disclose information received from Karuna about the KarXT  
4 Trial except for the limited purposes of conducting that trial. It further agreed to  
5 require the same promises concerning the use and disclosure of information about the  
6 KarXT Trial from the clinical providers it retained for the trial on Karuna's behalf.

7 15. In May 2018, the Managing Agent engaged a clinical research provider  
8 affiliated with Dr. Bari (the "Clinical Provider") to assist in conducting the KarXT  
9 Trial, with Dr. Bari acting as a medical investigator for the trial.

10 16. The Managing Agent engaged Dr. Bari and the Clinical Provider for the  
11 KarXT Trial pursuant to a Master Confidential Disclosure Agreement that was  
12 already in place between the Managing Agent and the Clinical Provider for trials  
13 conducted by those entities, and which Dr. Bari signed on the Clinical Provider's  
14 behalf (the "Confidentiality Agreement"). The Confidentiality Agreement strictly  
15 limited the Clinical Provider and its agents, including Dr. Bari, from using or  
16 disclosing information about the KarXT Trial except for the limited purposes of  
17 conducting the trial. The Confidentiality Agreement did not permit the Clinical  
18 Provider or Dr. Bari to use information about the KarXT Trial for trading securities.

19 17. The Managing Agent specifically reminded Dr. Bari about the  
20 Confidentiality Agreement before engaging him and the Clinical Provider for the  
21 KarXT Trial and insisted on that agreement's applicability to the KarXT Trial as a  
22 pre-condition of the engagement.

23 **B. Dr. Bari Learns That Karuna Plans To Announce Positive Results From**  
24 **The KarXT Trial**

25 18. On or about November 12, 2019, Karuna obtained the KarXT Trial  
26 results from the Managing Agent and concluded that KarXT had proven both safe  
27 and effective to a high degree of statistical significance. These results were unusually  
28 positive for a clinical study like the KarXT Trial, and Karuna's management team

1 was thrilled with the outcome.

2 19. Before going public with the results, Karuna invited Dr. Bari and a small  
3 group of other doctors who had assisted with the KarXT Trial to act as potential “Key  
4 Opinion Leaders” once the results were made public. Karuna explained to the  
5 physicians that, as potential Key Opinion Leaders, they would receive non-public  
6 information about the results of the KarXT Trial so that they could prepare to respond  
7 to questions about KarXT from investors and the media once the results were made  
8 public.

9 20. On November 14, 2019, Karuna’s chief medical officer informed Dr.  
10 Bari and other potential Key Opinion Leaders that Karuna planned to announce the  
11 results of the KarXT Trial before the stock market opened on November 18, 2019.

12 21. On November 15, 2019, Karuna shared the KarXT Trial results with Dr.  
13 Bari and other potential Key Opinion Leaders during a confidential audio-video call  
14 held over the Internet (the “November 15 Call”). Karuna used a PowerPoint  
15 presentation during the November 15 Call to provide details about those results (the  
16 “PowerPoint Presentation”), including information about their statistical significance,  
17 and shared potential talking points for use with investors and the media, including  
18 that Karuna was “thrilled” with the outcome of the trial; that KarXT was “safe and  
19 well tolerated”; and that the trial was a “significant milestone” for Karuna and the  
20 millions of patients diagnosed with schizophrenia.

21 22. Karuna made it clear to the potential Key Opinion Leaders before and  
22 during the November 15 Call that the information it shared about the KarXT Trial  
23 was confidential and non-public.

24 **C. Dr. Bari Purchases Karuna Common Stock Based On Non-Public**  
25 **Information About The KarXT Trial**

26 23. Approximately one hour after the November 15 Call, Dr. Bari placed an  
27 order to purchase 560 shares of Karuna common stock. He placed an order to  
28 purchase an additional 560 shares of Karuna common stock approximately forty-five

1 minutes later. Those orders were filled shortly after Dr. Bari placed them, at an  
2 average price of approximately \$17.90 per share.

3 24. Later on November 15, 2019, Dr. Bari received a draft press release  
4 from Karuna, via email, concerning the KarXT Trial results (the “KarXT Press  
5 Release”). The email to which the KarXT Press Release was attached instructed Dr.  
6 Bari that the information in the press release “remains confidential.”

7 25. On November 16, 2019, Karuna emailed Dr. Bari a final copy of the  
8 PowerPoint Presentation used during the November 15 Call. The email to which the  
9 PowerPoint Presentation was attached stated that Karuna planned to use the  
10 presentation as part of an investor call on November 18, 2019 and was providing  
11 “this confidential deck to you to assist in your preparation.”

12 26. Both the KarXT Press Release and the PowerPoint Presentation  
13 contained highly positive, nonpublic information about the KarXT Trial, including  
14 that KarXT had proven both safe and effective.

15 27. On Sunday, November 17, 2019, Karuna emailed Dr. Bari the final  
16 version of the KarXT Press Release, which was labeled “EMBARGOED.” In  
17 addition to announcing that KarXT had proven safe and effective, the press release  
18 described KarXT as a “game-changer” for treating patients with schizophrenia.

19 28. Later that evening, Dr. Bari placed an order to buy an additional 500  
20 shares of Karuna stock at the market-opening price the next day – *i.e.*, Monday,  
21 November 18, 2019. That order was filled the next morning at the opening price of  
22 \$32.50 per share, bringing Dr. Bari’s total purchase of Karuna stock to 1,620 shares.

23 29. Dr. Bari placed his November 15 and November 17 orders to purchase  
24 Karuna common stock based on the confidential, non-public information provided to  
25 him by Karuna concerning the results of the KarXT Trial, including the KarXT Press  
26 Release and the PowerPoint Presentation, and based on the confidential, non-public  
27 information that Karuna planned to announce those results before the stock market  
28 opened on November 18, 2019.

1 **D. Karuna Announces The KarXT Trial Results And Its Stock Price More**  
2 **Than Quadruples In One Day**

3 30. Before the stock market opened on November 18, 2019, Karuna issued  
4 the KarXT Press Release and held a conference call to announce the KarXT Trial  
5 results to the public. Before that time, the KarXT Trial results were not otherwise  
6 available to the public.

7 31. Shortly before market opening on November 18, 2019, Karuna publicly  
8 announced the results of the KarXT Trial. Karuna's common stock opened that  
9 morning at \$32.50 per share, an approximately 84 percent increase from its closing  
10 price on the previous trading day, and closed that day at \$96 per share, a more than  
11 440 percent increase from its closing price on the previous trading day.

12 32. Trading volume for Karuna common stock was nearly 25,000% higher  
13 on November 18, 2019 than it was on the previous trading day.

14 33. Over the next two days, Dr. Bari sold all 1,620 shares of Karuna  
15 common stock he had acquired through the orders he placed on November 15 and 17,  
16 2019. His total profit from this trading was \$119,217.

17 **E. Dr. Bari Purchased Karuna Stock In Breach Of His Fiduciary Duties**

18 34. Dr. Bari owed Karuna a duty of trust and confidence not to use  
19 information provided to him about the KarXT Trial except as permitted under the  
20 Confidentiality Agreement. The Confidentiality Agreement did not permit him to  
21 trade securities based on information he received from Karuna about the KarXT  
22 Trial.

23 35. As a potential Key Opinion Leader whom Karuna included in its  
24 preparations to announce the KarXT Trial results to the public, Dr. Bari also owed  
25 Karuna and its shareholders a duty not to trade on the material non-public  
26 information he received about KarXT.

27 36. Dr. Bari breached these duties by purchasing Karuna common stock on  
28 the basis of material, nonpublic information he received from Karuna about the

1 KarXT Trial, including information about the results of the KarXT Trial, the content  
2 of the KarXT Press Release, the content of the PowerPoint Presentation, and the date  
3 on which Karuna planned to announce the results of the KarXT Trial to the public.

4 **F. Dr. Bari Purchased Karuna Stock With Scienter**

5 37. When Dr. Bari purchased Karuna stock in November 2019, he knew he  
6 owed a duty to Karuna not to use information about the KarXT Trial except as  
7 permitted under the Confidentiality Agreement. The Managing Agent specifically  
8 reminded him of that agreement and its applicability to information he received about  
9 the KarXT Trial before engaging him for the KarXT Trial.

10 38. Dr. Bari knew it was a breach of that duty to purchase Karuna stock  
11 based on the confidential information he received from Karuna both because of his  
12 experience as a medical investigator for confidential clinical trials and because he  
13 personally signed the Confidentiality Agreement, which strictly limited the use of  
14 information he received about the KarXT Trial. He knew that the information he  
15 received from Karuna about the KarXT Trial was confidential and non-public  
16 because of his extensive experience assisting in confidential clinical trials and  
17 because Karuna repeatedly reminded him that the information was confidential and  
18 non-public. The material nature of the information was obvious to Dr. Bari based on  
19 his experience as a medical doctor and medical investigator, and because of the  
20 highly favorable terms in which Karuna’s management team described the results to  
21 him, including that they were “thrilled” with the outcome of the KarXT Trial and that  
22 the trial results were a “significant milestone” for the company.

23 **FIRST CLAIM FOR RELIEF**

24 **Fraud in Connection with the Purchase and Sale of Securities**

25 **Violations of Section 10(b) of the Exchange Act and Rule 10b-5**

26 **(Against Defendant Mohammed Bari)**

27 39. The SEC re-alleges and incorporates by reference paragraphs 1 through  
28 38 above.



1 40. Dr. Bari learned material, non-public information from Karuna about the  
2 KarXT Trial and purchased Karuna common stock on the basis of that information.

3 41. At all relevant times, Dr. Bari owed Karuna a duty not to trade on the  
4 basis of confidential information provided to him by Karuna about the KarXT Trial.  
5 He breached that duty by purchasing Karuna common stock on the basis of the  
6 material, non-public information he received from Karuna about the KarXT Trial.

7 42. The non-public information Dr. Bari received from Karuna was material  
8 because it would have been important to a reasonable investor in making an  
9 investment decision. There is a substantial likelihood that the disclosure of that  
10 information would have been viewed by a reasonable investor as having significantly  
11 altered the total mix of information available to investors.

12 43. The information Dr. Bari received from Karuna was non-pubic because  
13 Karuna did not disclose that information to the public, and it was not otherwise  
14 available to the public, until Karuna's public announcement on November 18, 2019.

15 44. Dr. Bari placed all of his trades before that announcement, and his  
16 November 15, 2019 purchases were filled before that announcement. His November  
17 17, 2019 purchase was filled shortly after Karuna's public announcement, at the  
18 market open on November 18, 2019, but before the investing public had an equal  
19 opportunity to make an informed investing judgment about the information.  
20 Karuna's stock price increased by approximately 200% after that order was filled and  
21 continued to rise significantly the following day.

22 45. At all relevant times, Dr. Bari acted with scienter by trading on the basis  
23 of the material, nonpublic information he received from Karuna.

24 46. By engaging in the conduct described above, Dr. Bari, directly or  
25 indirectly, in connection with the purchase or sale of a security, by the use of means  
26 or instrumentalities of interstate commerce, of the mails, or of the facilities of a  
27 national securities exchange: (a) employed devices, schemes, or artifices to defraud;  
28 (b) made untrue statements of a material fact or omitted to state a material fact

1 necessary in order to make the statements made, in the light of the circumstances  
2 under which they were made, not misleading; or (c) engaged in acts, practices, or  
3 courses of business which operated or would operate as a fraud or deceit upon other  
4 persons.

5 47. By engaging in the conduct described above, Defendant Bari violated,  
6 and unless restrained and enjoined will continue to violate, Section 10(b) of the  
7 Exchange Act, 15 U.S.C. § 78j(b), and Rules 10b-5 thereunder, 17 C.F.R. § 240.10b-  
8 5.

9 **PRAYER FOR RELIEF**

10 WHEREFORE, the SEC respectfully requests that the Court:

11 **I.**

12 Issue findings of fact and conclusions of law that Defendant committed the  
13 alleged violations.

14 **II.**

15 Issue judgment, in form consistent with Rule 65(d) of the Federal Rules of  
16 Civil Procedure, permanently enjoining Defendant, and his officers, agents, servants,  
17 employees and attorneys, and those persons in active concert or participation with  
18 any of them, who receive actual notice of the judgment by personal service or  
19 otherwise, and each of them, from violating Section 10(b) of the Exchange Act [15  
20 U.S.C. §§ 78j(b)], and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

21 **III.**

22 Order Defendant to pay a civil penalty under Section 21A of the Exchange Act,  
23 15 U.S.C. § 78u-1.

24 **IV.**

25 Retain jurisdiction of this action in accordance with the principles of equity and  
26 the Federal Rules of Civil Procedure in order to implement and carry out the terms of  
27 all orders and decrees that may be entered, or to entertain any suitable application or  
28 motion for additional relief within the jurisdiction of this Court.

V.

Grant such other and further relief as this Court may determine to be just and necessary.

Dated: May 26, 2021

*/s/ Amy J. Longo*

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Amy J. Longo  
Lance Jasper  
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Securities and Exchange Commission

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