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 12
 13 UNITED STATES DISTRICT COURT
 14 NORTHERN DISTRICT OF CALIFORNIA
 15 SAN JOSE DIVISION

16 SECURITIES AND EXCHANGE COMMISSION, Case No. C-

17 Plaintiff,

18 v.

COMPLAINT

19 JANARDHAN NELLORE,
 SIVANNARAYANA BARAMA,
 20 GANAPATHI KUNADHARAJU,
 SABER HUSSAIN, and
 21 PRASAD MALEMPATI,

22 Defendants.

23
 24 Plaintiff Securities and Exchange Commission (the “Commission”) alleges:

25 **SUMMARY**

26 1. Janardhan Nellore led a ring of traders in a years-long scheme to illegally trade the
 27 securities of Palo Alto Networks, Inc. (“PANW” or “the Company”), while he was employed at the
 28 Company as an IT administrator. Nellore and the other traders, all of whom were his friends,

1 repeatedly traded on the basis of confidential information Nellore obtained about upcoming PANW
2 earnings results, in order to profit when the Company publicly announced its financial results.

3 2. In or about 2015, Nellore learned material nonpublic information regarding PANW's
4 earnings results and financial performance through his role as an IT administrator. Nellore misused
5 the highly sensitive information, contrary to his commitments to PANW, in order to trade PANW
6 securities. He also misused the information to repeatedly tip four of his friends – Sivannarayana
7 Barama, Ganapathi Kunadharaju, Saber Hussain, and Prasad Malempati – to trade PANW securities
8 based on the inside information.

9 3. At the peak of their scheme in 2017, Nellore, Barama, Kunadharaju, Hussain, and
10 Malempati (collectively, “Defendants”) achieved more than \$7 million in illegal trading profits.
11 Defendants continued to trade on the basis of Nellore's inside information through 2018, but with
12 mixed results.

13 4. Nellore closely coordinated trading among the ring members through telephone and
14 text communications with Barama, Kunadharaju, Hussain, and Malempati. As a result, the traders
15 often placed nearly simultaneous trades in the same types of securities – usually options to buy or sell
16 PANW securities – before the Company announced its earnings to the market. In addition, Nellore
17 used accounts associated with two of the tippees, Kunadharaju and Hussain, to surreptitiously trade
18 PANW securities, at times trading from his work computer at PANW.

19 5. Defendants used other devices to avoid detection of their scheme. Among other
20 things, Nellore passed tips to the four other traders using the code word “baby” to refer to PANW. In
21 addition, while using an account associated with one of the tippees to trade in PANW's securities,
22 Nellore concealed his identity by impersonating the accountholder during a phone call with the
23 brokerage firm. Finally, when kicking back trading profits to Nellore, two tippees made multiple
24 cash withdrawals slightly under the \$10,000 cash transaction reporting limits, in an attempt to limit
25 bank scrutiny.

26 **JURISDICTION AND VENUE**

27 6. The Commission brings this action pursuant to Sections 21(d) and 21A of the
28 Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d) and 78u-1.

1 7. This Court has jurisdiction over this action pursuant to Sections 21(d), 21A, and 27 of
2 the Exchange Act, 15 U.S.C. §§ 78u(d), 78u-1 and 78aa.

3 8. Defendants, directly or indirectly, made use of the means or instrumentalities of
4 interstate commerce, and of the mails, and of the facilities of a national securities exchange, in
5 connection with the transactions, acts, practices and courses of business alleged herein.

6 9. Venue in this District is proper pursuant to Section 27 of the Exchange Act, 15 U.S.C.
7 § 78aa, because a substantial part of the acts and transactions constituting the violations alleged in
8 this Complaint occurred within the Northern District of California.

9 **INTRADISTRICT ASSIGNMENT**

10 10. Under Civil Local Rule 3-2(e), this civil action should be assigned to the San Jose
11 Division, because a substantial part of the events which give rise to the claims alleged herein
12 occurred in Santa Clara County.

13 **DEFENDANTS**

14 11. Janardhan Nellore is 42 years old, and until his arrest by the Federal Bureau of
15 Investigation in May 2019, resided in Milpitas, California. Nellore joined PANW as an IT
16 administrator in 2012. Beginning in 2015, Nellore held a management position within PANW's IT
17 group. On May 9, 2019, the U.S. Attorney's Office for the Northern District of California filed a
18 criminal complaint against Nellore for aggravated identity theft under 18 U.S.C. § 1028A, in
19 connection with Nellore's use of another individual's brokerage account to trade in PANW securities.
20 The September 19, 2019 indictment against Nellore charged him with aggravated identity theft
21 during and in relation to a felony violation of attempt and conspiracy to commit securities fraud
22 under 18 U.S.C. § 1349.

23 12. Sivannarayana Barama is 45 years old and resides in Fremont, California. Barama
24 works as a software engineer in Santa Clara, California. In 2015 and 2016, Barama worked as a
25 contractor for PANW and interacted with PANW's IT group, where he and Nellore became friends
26 and discussed their shared interest in securities trading.

27 13. Ganapathi Kunadharaju is 41 years old and resides in San Ramon, California.
28 Kunadharaju works as a software engineer in Santa Clara, California. Kunadharaju became friends

1 with Nellore when they attended college in India, and they maintained a close friendship while living
 2 in California. Nellore and Kunadharaju have financial ties, and transferred thousands of dollars
 3 between each other during the past several years.

4 14. Saber Hussain is 42 years old and resides in Santa Clara, California. Hussain works as
 5 an IT consultant in Santa Clara, California. During 2012, Hussain worked as a contractor for PANW,
 6 where he became friends with Nellore. Nellore and Hussain have financial ties, and transferred
 7 thousands of dollars between each other during the past several years.

8 15. Prasad Malempati is 50 years old and resides in Cupertino, California. Malempati was
 9 employed at PANW in the IT group, where he became friends with Nellore, from 2013 until 2016.

10 **RELEVANT ENTITY**

11 16. Palo Alto Networks, Inc. is a Delaware corporation headquartered in Santa Clara,
 12 California. PANW is a cloud-computing security firm that offers customers a security operating
 13 platform. PANW's common stock is registered with the Commission pursuant to Section 12(b) of
 14 the Exchange Act, and its securities are traded on the New York Stock Exchange under the ticker
 15 symbol "PANW." PANW's fiscal year closes on July 31 of each calendar year.

16 **FACTUAL ALLEGATIONS**

17 **A. Nellore Gains Access to Material Nonpublic Information Regarding PANW**

18 17. Nellore was employed by PANW as an IT administrator responsible for supporting the
 19 company's internal financial databases. In 2015, Nellore was promoted within PANW's IT
 20 department and became entrusted with the highest level of permissions and access to the Company's
 21 database responsible for generating information related to revenue, which was restricted and
 22 monitored for access. This database – which was referred to internally as the Systems, Applications
 23 & Products in Data Processing ("SAP") database – was essential to the process by which PANW
 24 determined its quarterly financial results, such as revenue, so that it could report those results
 25 publicly, including in SEC filings (the "financial close process").

26 18. In his position as an IT administrator, Nellore became one of only five individuals at
 27 PANW with the highest level of access to the SAP database, known as the "SAP Admin Group."
 28 Nellore repeatedly accessed confidential information within the SAP database and other Company

1 systems while assisting the financial close process, which typically began approximately six weeks
2 before the Company's public earnings announcement. As part of his job function, Nellore also
3 regularly learned confidential information related to PANW's earnings, including its revenue
4 numbers, from business colleagues who were working on the financial close process.

5 19. Accordingly, by virtue of his role at PANW, beginning no later than 2015 until his
6 employment was terminated in 2019, Nellore acquired material nonpublic information regarding
7 PANW's earnings and financial performance for each quarter, well before the Company's public
8 earnings announcement.

9 20. Nellore's level of access to material nonpublic information at PANW came with
10 additional obligations. He was thus subject to several corporate policies that obligated him to
11 maintain the confidentiality of information he obtained through his employment.

12 21. For instance, beginning in or about 2012, Nellore was subject to PANW's insider
13 trading policy, which prohibited him from trading on, or disclosing to others, nonpublic information
14 regarding PANW's "[f]inancial results, financial condition, earnings pre-announcements, guidance,
15 projections or forecasts, particularly if inconsistent with the Company's guidance or the expectations
16 of the investment community[,]" for which he received Company training. Nellore was also subject
17 to PANW's employee handbook, which prohibited him from disclosing information regarding
18 PANW's "financial records" to "any unauthorized person inside or outside the company."

19 22. Given his high level of access, Nellore was also subject to quarterly trading "blackout"
20 periods, during which PANW's policy prohibited him from placing any trades to buy or sell PANW's
21 securities. Typically, the blackout periods began with the second Monday of the last month of each
22 quarter, and lasted until the end of the second full trading day after PANW publicly announced its
23 earnings. Nellore received blackout reminder emails to this effect during each quarter.

24 **B. Defendants' Scheme to Trade PANW on Inside Information**

25 23. Despite the duties he owed to his employer, Nellore embarked on an insider trading
26 scheme, by no later than 2015, in which he traded PANW securities on the basis of material
27 nonpublic information he obtained from his employer, and passed this information as gifts of
28 confidential information to four tippees, each of whom was his friend, for the purpose of trading

1 PANW securities. Nellore also made separate tipping arrangements with the tippees, further allowing
2 Nellore to benefit from trading on the basis of the material nonpublic information he learned from his
3 work at PANW.

4 *Nellore's Tipping Arrangements with Each of the Tippees*

5 24. By 2015, Nellore convinced Kunadharaju to grant Nellore electronic access to
6 accounts opened in Kunadharaju's name so that Nellore could place trades in those accounts. Nellore
7 explained to Kunadharaju that he would use Kunadharaju's account to conceal the fact that Nellore
8 was the source of the trading decisions. In addition, Nellore convinced Kunadharaju to open an
9 account in Kunadharaju's wife's name, and to give Nellore electronic access to the wife's account so
10 that Nellore could place trades in that account. Nellore at times added money to Kunadharaju's and
11 Kunadharaju's wife's brokerage accounts, as did Kunadharaju.

12 25. In exchange for allowing Nellore access to trade in the accounts, Kunadharaju agreed
13 that Kunadharaju would keep the profits of PANW trading that Nellore conducted with
14 Kunadharaju's funds, while Nellore would take the profits from trading that Nellore funded. Nellore
15 additionally tipped Kunadharaju to place the same trades as Nellore, to enable him to further profit
16 from the inside information. Kunadharaju withdrew cash in amounts under \$10,000 to kick back
17 profits to Nellore.

18 26. By 2015, Nellore also convinced Hussain to grant Nellore electronic access to at least
19 one account opened in Hussain's name so that Nellore could place trades in that account. Nellore
20 explained to Hussain that he would use Hussain's account to conceal the fact that Nellore was the
21 source of the trading decisions. In exchange for Nellore's use of Hussain's account to trade PANW
22 securities, Hussain agreed that Hussain would keep the profits of PANW trading that Nellore
23 conducted with Hussain's funds, while Nellore would take the profits from trading that Nellore
24 funded. Nellore also tipped Hussain to trade profitably in PANW securities based on Nellore's inside
25 information. Hussain withdrew cash in amounts under \$10,000 to kick back profits to Nellore.

26 27. In a different arrangement, Nellore also regularly tipped Malempati to trade profitably
27 in PANW securities based on Nellore's inside information. In exchange for the tips, Malempati, who
28 had studied stock trading, provided his stock research regarding PANW's anticipated stock price

1 movements to Nellore. The purpose of these analyses was to help Nellore form a trading strategy.

2 28. Nellore also regularly tipped Barama to trade in PANW securities based on Nellore's
3 inside information. Nellore provided these tips as gifts to Barama in the context of their friendship.
4 As one example of their mutual trust, Nellore asked Barama on one occasion for a cash loan and
5 offered to pay Barama back in India; Barama indicated a willingness to oblige the request.

6 29. As another example of their close ties, Barama relied on Nellore for investing advice.
7 Accordingly, Nellore acted as Barama's instructor in telling him how to trade, and frequently asked
8 Barama about the magnitude of Barama's trading and account balance. Throughout the relevant time
9 period, Nellore and Barama frequently discussed securities trading in communications via text
10 messages and phone calls and when they met, including at their shared place of worship.

11 *Nellore's Tips of Inside Information*

12 30. Nellore's tips of inside information about PANW's financial results were integral to
13 the four tippees' decisions to trade in PANW securities. Indeed, the tippees often traded shortly after
14 communicating with Nellore, and often within minutes or hours of each other. Defendants, including
15 Nellore, typically traded options on PANW securities, each typically making a consistent bet that
16 PANW's shares would ultimately rise or fall on the information about the Company's earnings that
17 Nellore had obtained.

18 31. Throughout the scheme, Nellore passed tips of inside information regarding PANW to
19 the four tippees, Barama, Kunadharaju, Hussain, and Malempati, in person, during phone calls, and in
20 text messages. At times, Nellore communicated important information about PANW's likelihood of
21 achieving projected revenue targets, including the revenue PANW earned during a given quarter,
22 before the Company announced publicly the same information. Nellore also recommended specific
23 trading strategies – particularly involving trading options on PANW's common stock – by, for
24 instance, instructing the tippees to buy or sell call options or put options, and to buy or sell options at
25 a specific strike price (or range).

26 32. At Nellore's direction, the ring employed options trading in order to place larger
27 "bets" on the basis of the inside information Nellore supplied. Options contracts offer a trader
28 varying degrees of potential for risk and profit. Options can be significantly cheaper to purchase than

1 common stock, allowing a trader to open a larger position in options than he could in stock, while
2 magnifying the potential profits (and the potential risks of losses) from a trade.

3 33. Nellore and the other traders frequently referred to PANW as the code word “baby” in
4 texts and emails when discussing tips and trades to further mask their communications. For example,
5 when Malempati sent Nellore a text, “Sold half of PANW,” Nellore promptly urged Malempati to use
6 the code word instead, saying, “It’s baby,” after which Malempati used the code word. Nellore
7 regularly referred to PANW as “baby” in his communications, including during text messages to
8 Barama with advice such as “exit baby,” and “enter few baby.” In contrast, when discussing
9 securities other than PANW, Nellore and the other traders did not use code words.

10 34. At times, Nellore discussed with the tippees the particular inside information, and at
11 other times he told them how to trade based on the information. For instance, Nellore told Barama in
12 texts “we know the numbers,” and “strong numbers expected.”

13 ***Defendants Trade Based on Inside Information from Nellore***

14 35. Beginning in or about 2015, Nellore and his tippees traded in advance of several
15 PANW earnings announcements based on inside information sourced from Nellore. The Appendix
16 identifies Defendants’ illegal PANW trades ahead of PANW earnings announcements, and the
17 relevant accounts in which these trades were placed.

18 36. Nellore’s tips were highly lucrative to the ring. At the scheme’s peak in 2017,
19 Defendants achieved approximately \$7 million in profits from unlawful trading in advance of
20 PANW’s public earnings announcements. Defendants continued to trade PANW securities through
21 2018 – with mixed success – on the inside information sourced from Nellore.

22 37. The following examples demonstrate the Defendants’ insider trading on the basis of
23 Nellore’s material nonpublic information.

24 ***Defendants’ Insider Trading in Advance of PANW’s November 21, 2016 Announcement***

25 38. Through his IT administrative privileges, and in discussions with business colleagues
26 related to the financial close, Nellore acquired confidential information indicating that PANW’s
27 earnings and financial performance for Q1 2017 (closed October 31, 2017) would be disappointing
28 and likely surprise the market.

1 39. On the evening of November 16, 2016, just five days before PANW’s public earnings
2 announcement, Nellore spoke by telephone for several minutes, first with Barama and then with
3 Kunadharaju.

4 40. The very next morning, November 17, 2016, Defendants Nellore, Barama and
5 Kunadharaju began purchasing PANW “put options” – designed to capitalize on the material
6 nonpublic information Nellore had. Both Nellore and Kunadharaju placed trades in Kunadharaju’s
7 accounts. The purchaser of a PANW put option has the right (but not the obligation) to sell PANW
8 shares at the specified “strike” price, before the stated expiration date of the option. By purchasing
9 put options, the traders were betting that the price of PANW’s shares would decline below the strike
10 price before the options expired.

11 41. Beginning at approximately 6:41 a.m. on November 17, 2016, Barama placed an order
12 to buy PANW put options at a cost of approximately \$72,000. His order was followed closely,
13 beginning at approximately 6:43 a.m., by orders placed by Nellore to buy PANW put options for an
14 account in Kunadharaju’s name, at a cost of approximately \$14,000. Before approximately
15 7:04 a.m., Barama also continued to purchase PANW put options, spending an additional
16 approximately \$51,000. After these trades were placed, Nellore again communicated by telephone
17 for several minutes that morning, first with Barama and then with Kunadharaju. After those calls, at
18 approximately 11:22 a.m., orders to purchase additional put options were placed in Kunadharaju’s
19 account at an approximate cost of \$3,000.

20 42. On November 21, 2016, shortly after 1:00 p.m., PANW publicly announced its
21 Q1 2017 earnings, revealing disappointing results for the Company. By the end of the next day, the
22 stock price had declined precipitously, closing roughly 13% lower than the prior day’s closing price.

23 43. Defendants Nellore, Barama and Kunadharaju sold the put options between November
24 21 and 23, 2016, profiting by more than \$200,000.

25 ***Defendants’ Insider Trading in Advance of PANW’s February 28, 2017 Announcement***

26 44. Through his IT administrative privileges, and in discussions with business colleagues
27 related to the financial close, Nellore acquired confidential information indicating that PANW’s
28 earnings and financial performance for Q2 2017 (closed January 31, 2017) would be disappointing

1 and would likely surprise the market.

2 45. During the final weeks before PANW's public announcement of its earnings, Nellore
3 had several conversations with Barama, Kunadharaju, Hussain, and Malempati, and each of them
4 placed trades in their brokerage accounts that were designed to profit if the market price of PANW's
5 securities fell after the earnings announcement. At the time, Nellore was aware that PANW's
6 revenue results would disappoint and likely surprise the market.

7 46. On the morning of February 8, 2017, Nellore and Malempati communicated twice by
8 telephone for several minutes. About two hours after the second call, at approximately 11:18 a.m.,
9 Malempati placed an order to purchase PANW put options. Later that day, Nellore and Malempati
10 spoke again by telephone for an approximately 24:06 minute call.

11 47. On February 20, 2017, Nellore and Hussain communicated by telephone for an
12 approximately 9:35 minute call. On February 21, 2017, Nellore and Hussain communicated by
13 telephone; hours later, orders to purchase PANW put options were placed in Hussain's account.

14 48. On February 28, 2017, PANW announced its earnings shortly after 1:00 p.m. In the
15 time period leading up to that announcement, Nellore spoke with Barama and Kunadharaju, and each
16 traded. Thus, beginning at approximately 9:06 a.m., Nellore and Kunadharaju spoke by telephone for
17 approximately 25:00 minutes. At approximately 10:26 a.m., Nellore and Barama communicated by
18 telephone for approximately 1:28 minutes. Then, from around 10:29 a.m. through 12:53 p.m.,
19 Nellore, Barama, and Kunadharaju each placed trades.

20 49. Following their calls on the morning of February 28, just before the public
21 announcement of PANW's earnings, between approximately 10:29 a.m. and 12:53 p.m., Kunadharaju
22 purchased PANW put options at an approximate cost of \$15,000. During this time, beginning at
23 approximately 11:32 a.m., Nellore and Kunadharaju again spoke by telephone for approximately
24 14:36 minutes. Just as their call ended, an order was placed in Kunadharaju's wife's account to buy
25 PANW put options at an approximate cost of \$3,000. Nellore and Kunadharaju initiated an
26 approximately 43:01 minute call at 12:46 p.m., and during this call, at approximately 12:53 p.m.
27 (12:00 minutes before PANW's earnings announcement), an order was placed in Kunadharaju's
28 wife's account to buy PANW put options at an approximate cost of \$1,100.

1 50. Similarly, beginning at approximately 11:30 a.m. through 12:25 p.m. on February 28,
2 Barama placed orders to buy PANW put options. In the first order, Barama spent approximately
3 \$37,000 buying put options. Barama then placed additional, larger orders to buy PANW put options
4 at an approximate cost of \$176,000. While Barama's orders were being placed and filled, beginning
5 at approximately 11:59 a.m., Barama again communicated by telephone with Nellore for
6 approximately 2:25 minutes. After that phone call, Barama spent another approximately \$26,000 on
7 PANW put options.

8 51. On February 28, before the public announcement of PANW's earnings, Nellore also
9 placed an order to buy PANW put options in his own account, at an approximate cost of \$2,400.

10 52. Hours after PANW's February 28 earnings announcement, Nellore again
11 communicated with each of the tippees by telephone in quick succession. Beginning at
12 approximately 1:36 p.m., Nellore and Barama had an approximately 2:33 minute call. Immediately
13 after, at approximately 1:38 p.m., Nellore and Malempati had an approximately 6:37 minute call.
14 Less than an hour later, at approximately 2:25 p.m., Nellore and Kunadharaju had an approximately
15 3:08 minute call. Finally, beginning at approximately 6:22 p.m., Nellore and Hussain spoke for
16 approximately 9:46 minutes.

17 53. The next business day, each of the traders began to profitably sell their positions in
18 PANW put options. By the end of the day, PANW's stock price had closed more than 24% below the
19 prior day's closing price. Accordingly, Defendants' unlawful trades in put options ahead of the
20 February earnings announcement generated significant profits for them, which exceeded \$1 million.

21 54. On March 14, 2017, in order to funnel trading profits to Nellore, Kunadharaju
22 withdrew from his bank account \$9,500. Kunadharaju then provided \$9,500 in cash to Nellore, who
23 deposited the cash into his own bank account on the same day.

24 ***Defendants' Insider Trading in Advance of PANW's May 31, 2017 Announcement***

25 55. Through his IT administrative privileges, and in discussions with business colleagues
26 related to the financial close, Nellore acquired confidential information indicating that PANW's
27 earnings and financial performance for Q3 2017 (closed April 30, 2017) would exceed expectations
28 and would likely surprise the market.

1 56. On May 31, 2017, PANW announced its earnings publicly. As he had done in earlier
2 quarters, Nellore tipped Barama, Kunadharaju, Hussain, and Malempati to trade on inside
3 information he acquired from PANW in the weeks preceding the earnings announcement through
4 communications in person, by telephone, and by other means.

5 57. Furthermore, each of the Defendants traded on the information supplied by Nellore,
6 buying “call options” in a highly coordinated manner, just ahead of PANW’s public announcement.
7 The purchaser of a PANW call option has the right (but not the obligation) to buy PANW shares at
8 the specified “strike” price, before the stated expiration date of the option. By purchasing call
9 options, the traders were betting that the price of PANW’s shares would increase above the strike
10 price before the options expired.

11 58. On May 30, 2017, the day before the earnings announcement, beginning at
12 approximately 6:37 a.m., each of the Defendants initiated trades to buy PANW call options in quick
13 succession. First, beginning at approximately 6:37 a.m., orders to purchase PANW call options were
14 placed in Hussain’s account. About one minute later, Nellore began placing orders to buy call
15 options in one of Kunadharaju’s accounts; nearly simultaneously, Kunadharaju placed orders to buy
16 PANW call options in another of Kunadharaju’s accounts. Then, beginning at approximately 6:50
17 a.m., Nellore placed orders to buy PANW call options in his own account.

18 59. Later that morning, Nellore communicated with Kunadharaju, Barama, and
19 Malempati, and each of the tippees placed orders to buy PANW call options. Thus, between
20 approximately 8:00 a.m. and 8:40 a.m., Kunadharaju placed orders to buy PANW call options; during
21 this time, Kunadharaju and Nellore communicated by telephone in three separate calls for
22 approximately 1:13, 8:25, and 8:19 minutes. During each of the approximately 8 minute calls
23 between Kunadharaju and Nellore, Kunadharaju placed orders to buy PANW call options.

24 60. Similarly, at approximately 8:45 a.m. on May 30, Nellore communicated with Barama
25 by telephone for approximately 1:42 minutes. Then, beginning at approximately 9:00 a.m., Barama
26 placed orders to buy PANW call options, at an approximate cost of nearly \$250,000. Barama texted
27 Nellore at approximately 9:21 a.m. to ask, “Baby ok?” and “Call me when u free” to which Nellore
28 replied the same morning, “No problem keep adding[.]”

1 61. Finally, beginning at approximately 9:48 a.m. on May 30, Malempati placed orders to
2 buy PANW call options; Malempati called Nellore, and Nellore returned the call and spoke with
3 Malempati for approximately 8:00 minutes within about one hour of these trades. Later that day,
4 Nellore spoke again via telephone with Hussain, Kunadharaju, and Barama.

5 62. PANW publicly announced its earnings on May 31, 2017 at approximately 1:00 p.m.
6 Within hours, Nellore was again in contact with each of the tippees. First, Nellore and Kunadharaju
7 spoke for a total of approximately 15 minutes during three calls from 1:29 p.m. through 2:02 p.m.
8 Then, Nellore and Malempati communicated by text message at approximately 2:06 p.m. Later,
9 Nellore and Hussain spoke at approximately 5:35 p.m. for 9:28 minutes, followed shortly after by
10 another call between Nellore and Kunadharaju at approximately 5:45 p.m. for 11:50 minutes, and a
11 call between Nellore and Barama at approximately 5:59 p.m. for 5:17 minutes.

12 63. The day after the announcement, June 1, 2017, each of the traders began to sell their
13 PANW call options for a profit. As PANW's stock price closed at the end of the day about 17%
14 higher than the prior day's closing price, Defendants' trades in advance of the announcement
15 generated profits that exceeded \$3 million.

16 64. On June 13, 2017, in order to funnel trading profits to Nellore, Kunadharaju's wife
17 withdrew \$9,500 from her bank account. Kunadharaju then provided \$9,500 in cash to Nellore, who
18 deposited the cash into his own bank account the same day.

19 **C. Defendants Acted Intentionally**

20 65. Nellore knowingly or recklessly traded on the basis of material nonpublic information
21 and tipped Barama, Kunadharaju, Hussain, and Malempati to trade as well.

22 66. At the time of the trading described above, Nellore knew, or should have known, that
23 the information he acquired at PANW regarding its earnings and financial performance was material
24 and nonpublic, and that he had a duty to his employer to keep such information confidential. Nellore
25 knew or was reckless in not knowing that he owed PANW a fiduciary duty, or an obligation arising
26 from a similar relationship of trust or confidence, to keep this information confidential.

27 67. In particular, Nellore was aware of several restrictions prohibiting him from trading,
28 or tipping others to trade, based on the confidential PANW information, including but not limited to

1 the Company's insider trading policy and its trading blackout periods.

2 68. In receiving insider trading tips from Nellore, Barama, Kunadharaju, Hussain, and
3 Malempati each knew, or were reckless in not knowing, that the information Nellore conveyed
4 regarding PANW was material nonpublic information and that they should not trade on such
5 information.

6 69. In addition, Barama, Kunadharaju, Hussain, and Malempati knew, were reckless in not
7 knowing, or consciously avoided knowing, that the material nonpublic information was disclosed by
8 Nellore in breach of a fiduciary duty or obligation arising from a relationship of trust or confidence.

9 70. At the time of the trading described above, Defendants each acted with deceptive
10 intent. As Nellore revealed to both Kunadharaju and Hussain, he used their accounts to trade in
11 PANW securities in order to mask the fact that Nellore was the source of the trading decisions.
12 Nellore also took affirmative steps to conceal his identity and ability to make trades in these accounts.
13 For example, in or about February 2018, Nellore used his cell phone to call Hussain's brokerage firm
14 to place a trade in PANW securities in Hussain's account; during the call, Nellore identified himself
15 as Hussain, and provided personal details regarding Hussain, in order to surreptitiously obtain access
16 to the account.

17 71. Nellore and the other traders also frequently used the code word "baby" in texts and
18 emails when discussing tips and trades, to further mask their communications. In contrast, when
19 discussing securities other than PANW, Nellore and the other traders did not use code words.

20 72. Defendants also used devices to disguise kickbacks paid to Nellore in exchange for his
21 tips or to send him his profits from trading. For instance, Hussain and Kunadharaju each withdrew
22 cash in amounts just below the legal limits for law enforcement reporting to pass the money to
23 Nellore without having to explain the reasons or details for the withdrawals to the financial
24 institutions where they held accounts.

25 73. Ultimately, upon learning about law enforcement inquiries into his trading and tipping,
26 Nellore made plans to leave the United States. On or about May 7, 2019, agents from the Federal
27 Bureau of Investigation approached Nellore, to discuss, among other things, his trading in PANW
28 securities.

1 74. Sometime after the interview, Nellore secured one-way flight tickets for himself and
2 his family to India. The FBI intercepted Nellore at the airport on May 8, 2019 while he was trying to
3 board the flight.

4 **FIRST CLAIM FOR RELIEF**

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

6 *(Against All Defendants)*

7 75. Paragraphs 1 through 74 are hereby re-alleged and are incorporated herein by
8 reference.

9 76. Nellore had a duty to keep material nonpublic information that he acquired from
10 PANW confidential. Information about PANW's earnings and financial performance was maintained
11 as confidential by PANW, which had policies to protect its confidential information. Nellore learned
12 the information about PANW's earnings and financial performance as a result of his employment at
13 PANW, and thus knew, or recklessly disregarded, that he owed a fiduciary duty, or an obligation
14 arising from a similar relationship of trust and confidence, to PANW to keep the information
15 confidential and to refrain from trading and from tipping the information to others. In breach of that
16 duty, Nellore traded on the basis of the material nonpublic information and he knowingly or
17 recklessly communicated material nonpublic information to others so that they could trade securities
18 on the basis of the information. Nellore communicated material nonpublic information to others in
19 exchange for personal benefits, or with the expectation of receiving a benefit.

20 77. Barama, Kunadharaju, Hussain, and Malempati knowingly or recklessly traded on the
21 basis of material nonpublic information from Nellore. Barama, Kunadharaju, Hussain, and
22 Malempati knew, were reckless in not knowing, should have known, or consciously avoided knowing
23 that the material nonpublic information from Nellore was disclosed in breach of a fiduciary duty or
24 obligation arising from a relationship of trust or confidence.

25 78. By engaging in the conduct described above, Nellore, Barama, Kunadharaju, Hussain,
26 and Malempati, with scienter, in connection with the purchase or sale of securities as set forth above,
27 directly or indirectly:

- 28 a. employed devices, schemes, or artifices to defraud;

1 b. made untrue statements of material facts and omitted to state material facts necessary
2 in order to make the statements made, in light of the circumstances under which they
3 were made, not misleading; and
4 c. engaged in acts, practices, and courses of business which operated or would operate as
5 a fraud or deceit upon other persons, including purchasers and sellers of securities;
6 by the use of the means or instrumentalities of interstate commerce, and of the mails, and the
7 facilities of a national securities exchange.

8 79. By reason of the foregoing, Nellore, Barama, Kunadharaju, Hussain, and Malempati
9 violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange
10 Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

11 **SECOND CLAIM FOR RELIEF**

12 *Aiding and Abetting Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder*
13 *(Against Defendants Barama, Kunadharaju, Hussain, and Malempati)*

14 80. Paragraphs 1 through 74 are hereby re-alleged and are incorporated herein by
15 reference.

16 81. By engaging in the conduct described above, Barama, Kunadharaju, Hussain, and
17 Malempati, each knowingly or recklessly provided substantial assistance to Nellore, who knowingly
18 or recklessly, in connection with the purchase or sale of securities as set forth above, directly or
19 indirectly:

20 a. employed devices, schemes, or artifices to defraud;
21 b. made untrue statements of material facts and omitted to state material facts necessary
22 in order to make the statements made, in light of the circumstances under which they
23 were made, not misleading; and
24 c. engaged in acts, practices, and courses of business which operated or would operate as
25 a fraud or deceit upon other persons, including purchasers and sellers of securities;
26 by the use of the means or instrumentalities of interstate commerce, and of the mails, and the
27 facilities of a national securities exchange.

28 82. By reason of the foregoing, Barama, Kunadharaju, Hussain, and Malempati, directly

1 or indirectly, singly or in concert, aided and abetted violations of, and unless restrained and enjoined
2 will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5
3 thereunder, 17 C.F.R. § 240.10b-5.

4 **PRAYER FOR RELIEF**

5 WHEREFORE, the Commission respectfully requests that this Court enter a judgment:

6 **I.**

7 Finding that Defendants violated Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and
8 Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

9 **II.**

10 Permanently restraining and enjoining Defendants, their officers, agents, servants, employees,
11 and attorneys, and those persons in active concert or participation with them who receive actual
12 notice of the injunction by personal service or otherwise, from directly or indirectly violating Section
13 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

14 **III.**

15 Ordering Defendants to disgorge, with prejudgment interest, all illicit trading profits, losses
16 avoided, or other ill-gotten gains received by them, directly or indirectly, as a result of the conduct
17 alleged herein.

18 **IV.**

19 Ordering Defendants to pay civil penalties pursuant to Section 21A of the Exchange Act,
20 15 U.S.C. § 78u-1.

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V.

Granting such other relief as this Court may deem just and appropriate.

Dated: December 17, 2019

Respectfully submitted,

/s/ Christina N. Filipp

Christina N. Filipp
Attorney for Plaintiff
SECURITIES AND EXCHANGE
COMMISSION

Appendix

PANW Earnings Announcement	Accounts Placing Illegal Trades in PANW Securities ¹				
	Nellore (Insider)	Barama (Tippee)	Kunadharaju (Tippee)	Hussain (Tippee)	Malempati (Tippee)
Nov. 23, 2015 (1Q16)		X	X	X	
Feb. 25, 2016 (2Q16)		X		X	
May 26, 2016 (3Q16)					
Aug. 30, 2016 (4Q16)		X	X		
Nov. 21, 2016 (1Q17)		X	X		
Feb. 28, 2017 (2Q17)	X	X	X	X	X
May 31, 2017 (3Q17)	X	X	X	X	X
Aug. 31, 2017 (4Q17)		X	X	X	X
Nov. 20, 2017 (1Q18)		X	X	X	X
Feb. 26, 2018 (2Q18)	X	X	X	X	X
June 4, 2018 (3Q18)		X	X		X
Sept. 6, 2018 (4Q18)		X	X	X	X

¹ Accounts referenced include both personal and spousal accounts of the Defendants.