

1 **POMERANTZ LLP**

2 Jennifer Pafiti (SBN 282790)

3 468 North Camden Drive

4 Beverly Hills, CA 90210

5 Telephone: (818) 532-6499

6 E-mail: jpafiti@pomlaw.com

7 - additional counsel on signature page -

8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**

10 , Individually and on
11 Behalf of All Others Similarly Situated,

12 Plaintiff,

13 v.

14 CHEETAH MOBILE INC., SHENG
15 FU, YUK KEUNG NG, and
16 VINCENT ZHENYU JIANG,

17 Defendants

Case No.

18 **CLASS ACTION COMPLAINT**
19 **FOR VIOLATION OF THE**
20 **FEDERAL SECURITIES LAWS**

21 JURY TRIAL DEMANDED

22 Plaintiff (“Plaintiff”), individually and on behalf of all other persons
23 similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against
24 Defendants (defined below), alleges the following based upon personal knowledge as to
25 Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters,
26 based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys,
27 which included, among other things, a review of the Defendants’ public documents,
28

1 conference calls and announcements made by Defendants, United States Securities and
2 Exchange Commission (“SEC”) filings, wire and press releases published by and
3 regarding Cheetah Mobile Inc. (“Cheetah” or the “Company”), analysts’ reports and
4 advisories about the Company, and information readily obtainable on the Internet.
5 Plaintiff believes that substantial evidentiary support will exist for the allegations set
6 forth herein after a reasonable opportunity for discovery.
7
8

9 **NATURE OF THE ACTION**

10 1. This is a federal securities class action on behalf of a class consisting of all
11 persons other than Defendants who purchased or otherwise acquired Cheetah’s
12 American Depositary Receipts (“ADRs”) between April 26, 2017 through October 25,
13 2017, both dates inclusive (the “Class Period”). Plaintiff seeks to recover compensable
14 damages caused by Defendants’ violations of the federal securities laws and to pursue
15 remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the
16 “Exchange Act”) and Rule 10b-5 promulgated thereunder.
17
18
19

20 2. Cheetah Mobile Inc. develops internet and mobile enhancement software
21 and applications. The Company develops and operates an internet browser, and internet
22 security, memory saving, power optimization, mobile games, and photo collage
23 applications. Cheetah Mobile operates in China.
24
25

26 3. Founded in 2009, the Company was formerly known as “Kingsoft Internet
27 Software Holdings Limited” and changed its name to Cheetah Mobile Inc. in March
28

1 2014. Cheetah is headquartered in Beijing, The People’s Republic of China. The
2 Company’s ADRs on the New York Stock Exchange (“NYSE”) under the ticker symbol
3 “CMCM.”
4

5 4. Throughout the Class Period, Defendants made materially false and
6 misleading statements regarding the Company’s business, operational and compliance
7 policies. Specifically, Defendants made false and/or misleading statements and/or failed
8 to disclose that: (i) the Company is using company-controlled accounts to inflate the
9 gifting on Live.me; (ii) the Company overstated its revenue; and (iii) as a result,
10 Cheetah’s public statements were materially false and misleading at all relevant times.
11

12
13 5. On October 26, 2017, *Prescience Point Research Group* published a report
14 asserting, among other things, that: (1) approximately 55% of Cheetah’s second quarter
15 2017 consolidated revenue does not exist; and (2) the Company uses company-controlled
16 or “fake” accounts on the mobile application Live.me to gift other users using Company
17 money.
18

19
20 6. On this news, Cheetah’s ADR price fell \$0.37, or 4.39%, to close at \$8.05
21 on October 26, 2017.
22

23 7. As a result of Defendants’ wrongful acts and omissions, and the precipitous
24 decline in the market value of the Company’s common shares, Plaintiff and other Class
25 members have suffered significant losses and damages.
26
27
28

JURISDICTION AND VENUE

1
2 8. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of
3 the Exchange Act (15 U.S.C. §§78j(b) and §78t(a)) and Rule 10b-5 promulgated
4 thereunder by the SEC (17 C.F.R. §240.10b-5).
5

6 9. This Court has jurisdiction over the subject matter of this action under 28
7 U.S.C. §1331 and §27 of the Exchange Act.
8

9 10. Venue is proper in this Judicial District pursuant to §27 of the Exchange
10 Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as the Company conducts business within
11 this Judicial District.
12

13 11. In connection with the acts, conduct and other wrongs alleged in this
14 Complaint, Defendants, directly or indirectly, used the means and instrumentalities of
15 interstate commerce, including but not limited to, the United States mail, interstate
16 telephone communications and the facilities of the national securities exchange.
17
18

PARTIES

19
20 12. Plaintiff, as set forth in the accompanying Certification, purchased common
21 shares of Cheetah at artificially inflated prices during the Class Period and was damaged
22 upon the revelation of the alleged corrective disclosure.
23

24 13. Defendant Cheetah Mobile Inc. is incorporated in the Cayman Islands, and
25 the Company's principal executive offices are located at Building No. 8, Hui Tong
26
27
28

1 Times Square, Yaojiayuan South Road, Beijing 100123, People’s Republic of China.
2 Cheetah’s ADRs trade on the NYSE under the ticker symbol “CMCM.”

3
4 14. Defendant Sheng Fu (“Fu”) has served at all relevant times as the
5 Company’s Chief Executive Officer (“CEO”).

6
7 15. Defendant Yuk Keung Ng (“Ng”) has served as the Company’s Principal
8 Financial Officer since March 2017.

9
10 16. Defendant Vincent Zhenyu Jiang (“Jiang”) has served as the Company’s
11 Chief Financial Officer (“CFO”) since April 10, 2017.

12
13 17. The Defendants referenced above in ¶¶ [REDACTED] are sometimes referred to herein
14 as the “Individual Defendants.”

15
16 18. The Company is liable for the acts of the Individual Defendants and its
17 employees under the doctrine of *respondeat superior* and common law principles of
18 agency because all of the wrongful acts complained of herein were carried out within the
19 scope of their employment.

20
21 19. The scienter of the Individual Defendants and other employees and agents
22 of the Company is similarly imputed to the Company under *respondeat superior* and
23 agency principles.

24
25 20. The Company and the Individual Defendants are referred to herein,
26 collectively, as the “Defendants.”

SUBSTANTIVE ALLEGATIONS

Background

21. Cheetah Mobile Inc. develops internet and mobile enhancement software and applications. The Company develops and operates an internet browser, and internet security, memory saving, power optimization, mobile games, and photo collage applications. Cheetah Mobile operates in China.

22. The Company's 90%-owned Cayman Islands subsidiary operates Live.me, a live video streaming application. Broadcasters on Live.me can earn real money from users via the application's gifting system.

Materially False and Misleading Statements Issued During the Class Period

23. The Class Period begins on April 26, 2017, when Cheetah filed an Annual Report on Form 20-F with the SEC, announcing the Company's financial and operating results for the quarter and year ended December 31, 2016 (the "2016 20-F"). The 2016 20-F contained signed certifications pursuant to the Sarbanes-Oxley Act of 2002 by Defendants Fu and Ng, stating that the financial information contained in the 2016 20-F was accurate and disclosed any material changes to the Company's internal control over financial reporting.

24. In the 2016 20-F, the Company stated the following regarding its applications:

We offer utility applications and content-driven applications on our platform. Our diversified suite of utility applications, which have amassed a large user base over the years, optimizes mobile and PC

1 internet system performance and provides real time protection against
2 known and unknown security threats. Leveraging the success of our
3 utility applications, we recently started to offer our content-driven
4 mobile applications, such as News Republic and Live.me. The number
5 of monthly active users of our mobile applications increased from
6 395.4 million in December 2014 to 635.5 million in December 2015,
7 which slightly decreased to 622.9 million in December 2016. Our
8 applications had been installed on 1,089.1 million, 2,340.8 million and
9 3,810.0 million mobile devices as of December 31, 2014, 2015 and
10 2016, respectively.

11 25. On August 22, 2017, the Company issued a press release announcing its
12 unaudited consolidated financial results for the second quarter ended June 30, 2017,
13 stating in part:

14 Second Quarter 2017 Financial Highlights

15 Total revenues increased by 14.8% year over year to RMB1,201.6
16 million (US\$177.2 million), mostly driven by the Company's growth in
17 mobile revenues, which achieved a record high during the second
18 quarter of 2017.

19 Operating profit increased to RMB66.2 million (US\$9.8 million) from
20 an operating loss of RMB63.0 million in the same period last year.
21 Non-GAAP operating profit increased by 254.3% year over year to
22 RMB90.4 million (US\$13.3 million). In particular, operating profit for
23 the Company's utility products and related services business increased
24 by 50.6% year over year to RMB212.8 million (US\$31.4 million) in
25 the second quarter of 2017, primarily driven by the Company's effort
26 in optimizing its utility products' cost and expense structure.

27 Net income attributable to Cheetah Mobile shareholders increased to
28 RMB70.2 million (US\$10.4 million) from a net loss attributable to
Cheetah Mobile shareholders of RMB150.5 million in the same period
last year. Non-GAAP net income attributable to Cheetah Mobile
shareholders increased to RMB94.4 million (US\$13.9 million) from a
non-GAAP net loss attributable to Cheetah Mobile shareholders of
RMB61.9 million in the same period last year. The Company
generated RMB194.7 million (US\$28.7 million) of net cash from
operating activities and RMB185.1 million (US\$27.3 million) of free
cash flow¹ in the second quarter of 2017.

29 26. The statements referenced in ¶¶ [REDACTED] above were materially false and/or
30 misleading because they misrepresented and/or failed to disclose the following adverse

1 facts pertaining to the Company's business, operational and financial results, which were
2 known to Defendants or recklessly disregarded by them. Specifically, Defendants made
3 false and/or misleading statements and/or failed to disclose that: (i) the Company is
4 using company-controlled accounts to inflate the gifting on Live.me; (ii) the Company
5 overstated its revenue; and (iii) as a result, Cheetah's public statements were materially
6 false and misleading at all relevant times.
7
8

9 **The Truth Begins to Emerge**

10 27. On October 26, 2017, *Prescience Point Research Group* published a report
11 asserting, among other things, that: (1) approximately 55% of Cheetah's second quarter
12 2017 consolidated revenue does not exist; and (2) the Company uses company-controlled
13 or "fake" accounts on the mobile application Live.me to gift other users using Company
14 money.
15
16

17 28. On this news, Cheetah's ADR price fell \$0.37, or 4.39%, to close at \$8.05
18 on October 26, 2017.
19

20 29. As a result of Defendants' wrongful acts and omissions, and the precipitous
21 decline in the market value of the Company's common shares, Plaintiff and other Class
22 members have suffered significant losses and damages.
23

24 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

25 30. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
26 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or
27
28

1 otherwise acquired Cheetah common shares traded on the NYSE during the Class Period
2 (the “Class”); and were damaged upon the revelation of the alleged corrective
3 disclosures. Excluded from the Class are Defendants herein, the officers and directors of
4 the Company, at all relevant times, members of their immediate families and their legal
5 representatives, heirs, successors or assigns and any entity in which Defendants have or
6 had a controlling interest.
7

8
9 31. The members of the Class are so numerous that joinder of all members is
10 impracticable. Throughout the Class Period, Cheetah common shares were actively
11 traded on the NYSE. While the exact number of Class members is unknown to Plaintiff
12 at this time and can be ascertained only through appropriate discovery, Plaintiff believes
13 that there are hundreds or thousands of members in the proposed Class. Record owners
14 and other members of the Class may be identified from records maintained by Cheetah
15 or its transfer agent and may be notified of the pendency of this action by mail, using the
16 form of notice similar to that customarily used in securities class actions.
17
18

19
20 32. Plaintiff’s claims are typical of the claims of the members of the Class as all
21 members of the Class are similarly affected by Defendants’ wrongful conduct in
22 violation of federal law that is complained of herein.
23

24 33. Plaintiff will fairly and adequately protect the interests of the members of
25 the Class and has retained counsel competent and experienced in class and securities
26 litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.
27
28

1 34. Common questions of law and fact exist as to all members of the Class and
2 predominate over any questions solely affecting individual members of the Class.

3 Among the questions of law and fact common to the Class are:
4

- 5 • whether the federal securities laws were violated by Defendants' acts
6 as alleged herein;
- 7 • whether statements made by Defendants to the investing public
8 during the Class Period misrepresented material facts about the
9 financial condition, business, operations, and management of
10 Cheetah;
- 11 • whether Defendants caused Cheetah to issue false and misleading
12 financial statements during the Class Period;
- 13 • whether Defendants acted knowingly or recklessly in issuing false
14 and misleading financial statements;
- 15 • whether the prices of Cheetah securities during the Class Period were
16 artificially inflated because of Defendants' conduct complained of
17 herein; and
- 18 • whether the members of the Class have sustained damages and, if so,
19 what is the proper measure of damages.

20 35. A class action is superior to all other available methods for the fair and
21 efficient adjudication of this controversy since joinder of all members is impracticable.
22 Furthermore, as the damages suffered by individual Class members may be relatively
23 small, the expense and burden of individual litigation make it impossible for members of
24 the Class to individually redress the wrongs done to them. There will be no difficulty in
25 the management of this action as a class action.
26
27
28

1 36. Plaintiff will rely, in part, upon the presumption of reliance established by
2 the fraud-on-the-market doctrine in that:

- 3 • Defendants made public misrepresentations or failed to disclose
4 material facts during the Class Period;
- 5 • the omissions and misrepresentations were material;
- 6 • Cheetah common shares are traded in efficient markets;
- 7 • the Company's shares were liquid and traded with moderate to heavy
8 volume during the Class Period;
- 9 • the Company traded on the NYSE, and was covered by multiple
10 analysts;
- 11 • the misrepresentations and omissions alleged would tend to induce a
12 reasonable investor to misjudge the value of the Company's common
13 shares; and
- 14 • Plaintiff and members of the Class purchased and/or sold Cheetah
15 common shares between the time the Defendants failed to disclose or
16 misrepresented material facts and the time the true facts were
17 disclosed, without knowledge of the omitted or misrepresented facts.

18 37. Based upon the foregoing, Plaintiff and the members of the Class are
19 entitled to a presumption of reliance upon the integrity of the market.
20

21 38. Alternatively, Plaintiff and the members of the Class are entitled to the
22 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of*
23 *the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants
24 omitted material information in their Class Period statements in violation of a duty to
25 disclose such information, as detailed above.
26
27
28

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

COUNT I

**Violation of Section 10(b) of The Exchange Act and Rule 10b-5
Against All Defendants**

39. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

40. This Count is asserted against Cheetah and the Individual Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

41. During the Class Period, Cheetah and the Individual Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately 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.

42. Cheetah and the Individual Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- employed devices, schemes and artifices to defraud;
- 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
- 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 Cheetah common shares during the Class Period.

1 43. Cheetah and the Individual Defendants acted with scienter in that they knew
2 that the public documents and statements issued or disseminated in the name of Cheetah
3 were materially false and misleading; knew that such statements or documents would be
4 issued or disseminated to the investing public; and knowingly and substantially
5 participated, or acquiesced in the issuance or dissemination of such statements or
6 documents as primary violations of the securities laws. These Defendants by virtue of
7 their receipt of information reflecting the true facts of Cheetah, their control over, and/or
8 receipt and/or modification of Cheetah allegedly materially misleading statements,
9 and/or their associations with the Company which made them privy to confidential
10 proprietary information concerning Cheetah, participated in the fraudulent scheme
11 alleged herein.
12

13
14
15
16 44. Individual Defendants, who are the senior officers and/or directors of the
17 Company, had actual knowledge of the material omissions and/or the falsity of the
18 material statements set forth above, and intended to deceive Plaintiff and the other
19 members of the Class, or, in the alternative, acted with reckless disregard for the truth
20 when they failed to ascertain and disclose the true facts in the statements made by them
21 or other Cheetah personnel to members of the investing public, including Plaintiff and
22 the Class.
23
24

25
26 45. As a result of the foregoing, the market price of Cheetah common shares
27 was artificially inflated during the Class Period. In ignorance of the falsity of Cheetah's
28

1 and the Individual Defendants' statements, Plaintiff and the other members of the Class
2 relied on the statements described above and/or the integrity of the market price of
3 Cheetah common shares during the Class Period in purchasing Cheetah common shares
4 at prices that were artificially inflated as a result of Cheetah's and the Individual
5 Defendants' false and misleading statements.
6

7
8 46. Had Plaintiff and the other members of the Class been aware that the market
9 price of Cheetah common shares had been artificially and falsely inflated by Cheetah's
10 and the Individual Defendants' misleading statements and by the material adverse
11 information which Cheetah's and the Individual Defendants did not disclose, they would
12 not have purchased Cheetah's common shares at the artificially inflated prices that they
13 did, or at all.
14
15

16 47. As a result of the wrongful conduct alleged herein, Plaintiff and other
17 members of the Class have suffered damages in an amount to be established at trial.
18

19 48. By reason of the foregoing, Cheetah and the Individual Defendants have
20 violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are
21 liable to the plaintiff and the other members of the Class for substantial damages which
22 they suffered in connection with their purchase of Cheetah common shares during the
23 Class Period.
24
25

26 **COUNT II**

27 **Violation of Section 20(a) of The Exchange Act** 28 **Against The Individual Defendants**

1 49. Plaintiff repeats and realleges each and every allegation contained in the
2
3 foregoing paragraphs as if fully set forth herein.

4 50. During the Class Period, the Individual Defendants participated in the
5
6 operation and management of Cheetah, and conducted and participated, directly and
7 indirectly, in the conduct of Cheetah's business affairs. Because of their senior positions,
8 they knew the adverse non-public information regarding the Company's inadequate
9 internal safeguards in data security protocols.
10

11 51. As officers and/or directors of a publicly owned company, the Individual
12
13 Defendants had a duty to disseminate accurate and truthful information with respect to
14 Cheetah's financial condition and results of operations, and to correct promptly any
15 public statements issued by Cheetah which had become materially false or misleading.
16

17 52. Because of their positions of control and authority as senior officers, the
18
19 Individual Defendants were able to, and did, control the contents of the various reports,
20 press releases and public filings which Cheetah disseminated in the marketplace during
21 the Class Period. Throughout the Class Period, the Individual Defendants exercised their
22 power and authority to cause Cheetah to engage in the wrongful acts complained of
23 herein. The Individual Defendants therefore, were "controlling persons" of Cheetah
24 within the meaning of Section 20(a) of the Exchange Act. In this capacity, they
25 participated in the unlawful conduct alleged which artificially inflated the market price
26 of Cheetah common shares.
27
28

1 53. By reason of the above conduct, the Individual Defendants are liable
2 pursuant to Section 20(a) of the Exchange Act for the violations committed by Cheetah.

3
4 **PRAYER FOR RELIEF**

5 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

6 A. Determining that the instant action may be maintained as a class action
7 under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the
8 Class representative;

9
10 B. Requiring Defendants to pay damages sustained by Plaintiff and the Class
11 by reason of the acts and transactions alleged herein;

12
13 C. Awarding Plaintiff and the other members of the Class prejudgment and
14 post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other
15 costs; and
16

17 D. Awarding such other and further relief as this Court may deem just and
18 proper.
19

20 **DEMAND FOR TRIAL BY JURY**

21 Plaintiff hereby demands a trial by jury.

22
23 Dated: November [REDACTED], 2017

24 Respectfully submitted,

25 **POMERANTZ LLP**

26 By: /s/ Jennifer Pafiti

27 Jennifer Pafiti (SBN 282790)
28 468 North Camden Drive
Beverly Hills, CA 90210

Telephone: (818) 532-6499
Email: jpafiti@pomlaw.com

POMERANTZ, LLP

Jeremy A. Lieberman
J. Alexander Hood II
600 Third Avenue, 20th Floor
New York, New York 10016
Telephone: (212) 661-1100
Facsimile:(212) 661-8665
Email: jalieberman@pomlaw.com
Email: ahood@pomlaw.com

POMERANTZ LLP

Patrick V. Dahlstrom
Ten South La Salle Street, Suite 3505
Chicago, Illinois 60603
Telephone: (312) 377-1181
Facsimile: (312) 377-1184
Email: pdahlstrom@pomlaw.com

Attorneys for Plaintiff

DRAFT

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

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

DRAFT