UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PLAINTIFF, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. INOVALON HOLDINGS, INC., KEITH R. DUNLEAVY, THOMAS R. KLOSTER, DENISE K. FLETCHER, ANDRÉ S. HOFFMANN, LEE D. ROBERTS, WILLIAM J. TEUBER JR., GOLDMAN SACHS & CO., MORGAN STANLEY & CO. LLC, CITIGROUP GLOBAL MARKETS INC., MERRILL LYNCH, PIERCE, FENNER & SMITH, INCORPORATED, UBS SECURITIES LLC, PIPER JAFFRAY & CO., ROBERT W. BAIRD & CO. INCORPORATED, WELLS FARGO SECURITIES, LLC and WILLIAM BLAIR & COMPANY, L.L.C., Defendants.	Civil Action No. CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE SECURITIES ACT OF 1933 DEMAND FOR JURY TRIAL

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

NATURE OF THE ACTION

1. This is a federal securities class action brought on behalf of all those who purchased Inovalon Class A common stock pursuant or traceable to the Registration Statement and Prospectus (collectively, the "Registration Statement") issued in connection with Inovalon's February 12, 2015 initial public stock offering (the "IPO" or "Offering"). The action asserts strict liability claims under §§11 and 15 of the Securities Act of 1933 ("1933 Act") against Inovalon, certain Inovalon officers and directors, and the underwriters of the IPO.

2. Inovalon provides cloud-based data analytics platforms for health insurance plans, pharmaceutical companies, researchers and others in the healthcare industry.

3. In February 2015, Inovalon completed the IPO, selling more than 25 million shares of common stock at $27 per share and raising more than $684 million in gross proceeds.

4. The Registration Statement was negligently prepared and, as a result, contained untrue statements of material fact and omitted to state material facts both required by governing regulations and necessary to make the statements made not inaccurate statements of material fact. Specifically, the Registration Statement failed to disclose the substantial revenues the Company

derived from sales in the City of New York and the State of New York. This was material because as it also failed to disclose, the State of New York had recently implemented – and New York City was on the cusp of implementing – substantial corporate tax reforms that would take effect on January 1, 2015 (New York City retroactively) that had significantly increased Inovalon's purportedly "stable" 39% effective tax rate to 43% and thus negatively impacted Inovalon's then-current and future financial results.

5. The Registration Statement was required to disclose this material information for three reasons. First, SEC Regulation S-K, 17 C.F.R. §229.303 ("Item 303"), required disclosure of any known events or uncertainties that at the time of the IPO had caused or were reasonably likely to cause Inovalon's disclosed financial information not to be indicative of future operating results. The Company's receipt of substantial sales revenues in the City and State of New York, and those entities' then-imminent increases in corporate tax rates, was likely to (and in fact did) materially adversely affect Inovalon's then-present results and financial prospects.

6. Second, SEC Regulation S-K, 17 C.F.R. §229.503 ("Item 503"), required, in the "Risk Factor" section of the IPO Registration Statement, a discussion of the most significant factors that made the offering risky or speculative and that each risk factor adequately describe the risk. The Registration Statement did not mention the then-impending risks posed by the Company's receipt of substantial sales revenues in the City and State of New York, which were then implementing significant corporate tax rate increases applicable to "out of state" companies like Inovalon doing substantial business in the City and State of New York, nor the material adverse effects on the Company's then-present financial results and future financial prospects.

7. Third, the Registration Statement's failure to disclose the substantial amount of sales revenues Inovalon derived in the City and the State of New York, those entities' imminent corporate

tax rate increases, and the resulting impact on Inovalon, bringing its true effective tax rate up to 43%, as well as the material adverse effect those increases were having on Inovalon's earnings and would likely have on its share price, rendered the Registration Statement's express claim that Inovalon's year-over-year "effective income tax rate . . . ***remained relatively stable at 39%***," an inaccurate statement of material fact. Because these "risks" had already materialized at the time of the IPO, the Registration Statement's purported risk disclosures were also inaccurate statements of material fact.

8. At the time of the filing of this complaint, Inovalon shares trade at less than $18 per share, ***more than one-third lower than the IPO price***.

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to §§11 and 15 of the 1933 Act [15 U.S.C. §§77k and 77o]. Jurisdiction is conferred by §22 of the 1933 Act [15 U.S.C. §77v].

10. Venue is proper in this Court pursuant to 28 U.S.C. §1391(b) and §22 of the 1933 Act because many of the acts and practices complained of herein occurred in substantial part in this District, defendants are found or transact business in this District, Inovalon shares are listed and trade on the NASDAQ stock exchange in this District, and the three co-lead bookrunning Underwriter Defendants (defined below) maintain their headquarters in this District and conducted the IPO and IPO roadshow in large part from this District. The Underwriting Agreement expressly provided that Inovalon and the Underwriter Defendants "agree[d] that any suit or proceeding arising in respect of [their] agreement or [] engagement [would] be tried exclusively in the U.S. District Court for the Southern District of New York . . . and the Company agree[d] to submit to the jurisdiction of, and to venue in, [this] court[]." The Registration Statement also stated that "[t]he underwriters expect[ed] to deliver the shares of Class A common stock to purchasers [in the IPO] in New York, New York on or about [February 18,] 2015."

PARTIES

11. Plaintiff purchased Inovalon shares traceable to the IPO and was damaged thereby.

12. Defendant Inovalon provides cloud-based data analytics platforms for health insurance plans, pharmaceutical companies, researchers and others in the healthcare industry.

13. Defendant Keith R. Dunleavy ("Dunleavy") is, and was at the time of the IPO, Inovalon's Chief Executive Officer ("CEO") and the Chairman of Inovalon's Board of Directors.

14. Defendant Thomas R. Kloster ("Kloster") is, and was at the time of the IPO, Inovalon's Chief Financial Officer ("CFO").

15. Defendants Denise K. Fletcher, André S. Hoffmann, Lee D. Roberts and William J. Teuber Jr. ("Teuber") are, and were at the time of the IPO, members of Inovalon's Board of Directors.

16. The defendants named in ¶¶13-15 are referred to herein as the "Individual Defendants." The Individual Defendants each signed the Registration Statement, solicited the investing public to purchase securities issued pursuant thereto, hired and assisted the underwriters, planned and contributed to the IPO and Registration Statement, and attended road shows and other promotions to meet with and present favorable information to potential Inovalon investors, all motivated by their own and the Company's financial interests.

17. Defendants Goldman Sachs & Co. ("Goldman Sachs"), Morgan Stanley & Co. LLC ("Morgan Stanley"), Citigroup Global Markets Inc. ("Citigroup"), Merrill Lynch, Pierce, Fenner & Smith, Incorporated, UBS Securities LLC ("UBS"), Piper Jaffray & Co. ("Piper Jaffray"), Robert W. Baird & Co. Incorporated, Wells Fargo Securities, LLC ("Wells Fargo"), and William Blair & Company, L.L.C. ("William Blair") are financial services companies that acted as underwriters for the IPO, helping to draft and disseminate the Registration Statement and solicit investors to purchase

Inovalon securities issued pursuant thereto. These defendants are referred to herein as the "Underwriter Defendants." Underwriter Defendants Goldman Sachs, Morgan Stanley and Citigroup, each of which is headquartered in this District, acted as co-lead bookrunning managers in the IPO. Pursuant to the 1933 Act, the Underwriter Defendants are liable for the Registration Statement as follows:

(a) The Underwriter Defendants are investment banking houses that specialize, *inter alia*, in underwriting public offerings of securities. They served as the underwriters of the IPO and shared more than $40.5 million in fees collectively. The Underwriter Defendants arranged a multi-city roadshow prior to the IPO during which they, and representatives from Inovalon, met with potential investors and presented highly favorable information about the Company, its operations and its financial prospects.

(b) The Underwriter Defendants also demanded and obtained an agreement from Inovalon and the Individual Defendants that Inovalon would indemnify and hold the Underwriter Defendants harmless from any liability under the federal securities laws. They also made certain that Inovalon had purchased millions of dollars in directors' and officers' liability insurance.

(c) Representatives of the Underwriter Defendants also assisted Inovalon and the Individual Defendants in planning the IPO and purportedly conducted an adequate and reasonable investigation into the business and operations of Inovalon, an undertaking known as a "due diligence" investigation. The due diligence investigation was required of the Underwriter Defendants in order to engage in the IPO. During the course of their "due diligence," the Underwriter Defendants had continual access to confidential corporate information concerning Inovalon's operations and financial prospects.

(d) In addition to availing themselves of virtually unlimited access to internal corporate documents, agents of the Underwriter Defendants met with Inovalon's lawyers, management and top executives and engaged in "drafting sessions" between at least October 2014 and February 2015. During these sessions, understandings were reached as to: (i) the strategy to best accomplish the IPO; (ii) the terms of the IPO, including the price at which Inovalon stock would be sold; (iii) the language to be used in the Registration Statement; (iv) what disclosures about Inovalon would be made in the Registration Statement; and (v) what responses would be made to the SEC in connection with its review of the Registration Statement. As a result of those constant contacts and communications between the Underwriter Defendants' representatives and Inovalon's management and top executives, the Underwriter Defendants knew of, or in the exercise of reasonable care should have known of, Inovalon's existing problems as detailed herein.

(e) The Underwriter Defendants caused the Registration Statement to be filed with the SEC and declared effective in connection with the offers and sales of securities registered thereby, including those to plaintiff and the other members of the Class.

SUBSTANTIVE ALLEGATIONS

18. On March 31, 2014, New York Governor Andrew Cuomo signed into law legislation implementing a massive corporate tax reform that would take effect on January 1, 2015. The New York State corporation tax reforms expanded New York's use of bright-line statutory nexus thresholds, instituted combined reporting based on the unitary business principle and expanded the use of market sourcing of receipts to a full range of service industries. One of the primary objects of the New York State tax reforms was to ensure that out-of-state companies that derived substantial revenues in the State of New York also paid their fair share of New York State taxes.

19. Via this bill, New York dramatically increased the number of corporations that were subject to its corporate tax by adopting the economic nexus standard. In addition to the physical

presence nexus provisions then-currently contained in New York tax law, otherwise "out of state" corporations would now be subject to corporate taxes in New York if they were "deriving receipts from an activity in [New York]" (N.Y. Tax Law §209.1(a), added by S. 6359, Part A, §5). A corporation would be deemed to derive receipts from an activity in New York if it had $1 million or more in New York receipts (N.Y. Tax Law §209.1(b), added by S. 6359, Part A, §5). For purposes of this provision, New York receipts were defined as the receipts included in the numerator of the corporation's apportionment factor (*id.*).

20. Upon enactment of the legislation, tax and accounting professionals issued analyses of the proposed corporate tax reform to their clients. Inovalon's outside independent auditors were Deloitte & Touche LLP ("Deloitte"). As a Deloitte client, Inovalon would have received Deloitte's 2014 New York State tax alert. The alert's "Summary of Major Reforms" expressly highlighted that the State, through the new bill, was "[a]dopting broad-based bright-line statutory nexus thresholds" to trigger New York State corporate tax obligations on otherwise "out of state" firms like Inovalon.

21. On or about October 10, 2014, Inovalon filed a draft Registration Statement on Form S-1 with the SEC (Registration No. 333-201321), which would be used for the IPO following a series of amendments in response to SEC comments.

22. On January 12, 2015, still well before Inovalon's IPO, New York City Mayor Bill de Blasio issued a press release announcing "***a major reform of New York City's corporate tax structure***," designed to streamline New York City and New York State corporate tax reporting.[1] The release stated, in pertinent part, as follows:

> Certain New York City corporate tax provisions have not been reformed since the 1940s and reflect an outdated financial regulatory structure. The City reforms announced today recognize the realities of the modern marketplace and treat firms consistently.

[1] All emphasis is added unless otherwise indicated.

* * *

> "These are common sense reforms that will modernize and streamline a corporate tax code that hasn't seen real changes since the 1940s – serving taxpayers, businesses, and the City alike," said Mayor Bill de Blasio.

* * *

> "New York City has crafted a thoughtful approach to corporate tax reform, updating its taxes to facilitate compliance and doing that in a way that both levels the playing field among large businesses and maintains revenue neutrality. The City aims to reduce taxes on small businesses and manufacturers, while ***making sure that large businesses pay a fair share***," said James Parrott, Deputy Director and Chief Economist at the Fiscal Policy Institute.

23. According to an announcement made that same day by Jacques Jiha, the Commissioner of New York City's Department of Finance, a primary purpose of the proposal was for the City to make it more difficult for companies to shift income from New York City to places with lower tax rates. As reported by the *Wall Street Journal* on January 12, 2015, "the city [was] proposing a variety of changes, including a new standard to determine how companies account[ed] for net income that [was] based on where a firm's markets [were] located, rather than the location of its business operations," such that "***[c]ompanies with at least $1 million in receipts from sales to New York customers [would] trigger . . . a 'nexus' for business income taxes" purposes***.

24. Once again on this legislative news, tax and accounting professionals issued analyses of the proposed New York City corporate tax reform to their clients. As a Deloitte client, Inovalon would have received Deloitte's January 23, 2015 alert entitled "New York City Proposes Corporate Tax Reform." The Deloitte partner who signed off on Deloitte's "Consent of Independent Registered Public Accounting Firm" authorizing defendants to include Deloitte's October 10, 2014 report relating to Inovalon's 2014 financial statements in the Registration Statement would also have seen this Deloitte client alert and Deloitte's earlier 2014 New York State alert. The January 2015 Deloitte Client alert stated, in pertinent part, as follows:

> On January 12, 2015, New York City Mayor Bill de Blasio proposed major reforms of the New York City corporate tax structure. The proposed reforms were included in Governor Cuomo's 2015-2016 Executive Budget released on January 21, 2015. If enacted into law, the proposed reforms would bring the New York City General Corporation Tax into substantial conformity with the New York State corporate franchise tax reforms enacted in 2014. ***However, unlike the State's enacted corporate reform, the New York City reform proposals do not contain an income tax rate reduction for all corporate taxpayers and do not call for the reduction and ultimate elimination of the alternative tax base on capital***. . . . The reforms, as contained in the proposed draft legislation, are intended to be revenue neutral and, ***if enacted, are expected to be retroactive to January 1, 2015***. In this Tax Alert we summarize the more significant proposed law changes.
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> **Proposed New York City Corporate Tax Reforms**
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> The more significant proposed reforms to New York City's corporate tax structure include the following:
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> * * *
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> - ***Adopting a broad-based, bright-line nexus concept such that corporations with sales of $1 million or more to New York City customers during the tax year would be subject to tax.***

25. On February 10, 2015, Inovalon filed its final amendment to the Registration Statement, which registered 25,555,555 shares of Inovalon common stock for public sale. The SEC declared the Registration Statement effective on February 11, 2015. On or about February 12, 2015, Inovalon priced the IPO at $27 per share and filed the final Prospectus for the IPO, which forms part of the Registration Statement. On February 18, 2015, the Company completed the IPO, which, upon the underwriters' exercise of their option to purchase additional shares, issued and sold a total of 25,364,803 shares, generating over $684 million in gross proceeds.

26. The Registration Statement was negligently prepared and, as a result, contained untrue statements of material fact and omitted to state material facts both required by governing regulations and necessary to make the statements made not inaccurate statements of material fact.

27. The Registration Statement disclosed neither the historical average proportion of revenues the Company derived in New York State and New York City, nor the absolute dollar

amount of revenues Inovalon derived from either the State of New York or from New York City, much less that Inovalon was deriving at least $1 million in sales in New York City, and thus New York State.

28. In addition to failing to disclose that Inovalon derived at least $1 million in annual revenues from sales in New York City and the State of New York, the Registration Statement failed to disclose that Mayor de Blasio had announced on January 12, 2015 a new proposed major corporate tax reform for New York City that was expressly designed to stop companies like Inovalon who made more than $1 million in sales in New York City annually from shifting income from New York to places with lower tax rates by having that $1 million in annual New York City sales trigger a "nexus" for business income taxes in New York City, and that Mayor de Blasio expressly stated that, when passed, the new New York City corporate tax proposal would be retroactive to January 1, 2015.

29. The Registration Statement also failed to disclose that the State of New York had implemented its own corporate tax reforms during 2014 that had also already become effective on January 1, 2015.

30. The Registration Statement further failed to disclose that these imminent increases in corporate tax liabilities, especially the then-imminent New York City tax reform that would take effect retroactively on January 1, 2015 (assuming it was passed which defendants had no meaningful cause to doubt), would dramatically increase Inovalon's "stable" 39% effective tax rate and thus negatively impact Inovalon's current and future financial results, including Inovalon's earnings reported in accordance with Generally Accepted Accounting Principles ("GAAP").

31. Indeed, the Registration Statement highlighted that Inovalon's year-over-year "effective income tax rate . . . ***remained relatively stable at 39%***," and that "[t]he Company

continually review[ed] tax laws, regulations and related guidance in order to properly record any uncertain tax liability positions."

32. The Registration Statement also purported to warn of numerous risks, which, "if" they occurred, "***might***" or "***could***" adversely affect the Company while failing to disclose that these very "risks" had already materialized at the time of the IPO. For example, the Registration Statement stated:

- "***[N]ew*** laws or regulations, or new interpretations of existing laws or regulations, applicable to our business" "***could*** cause fluctuations in the market price of our Class A common stock."
- "***[I]f*** our results of operations do not meet [securities analysts'] expectations, the share price of our Class A common stock ***could*** decline."
- We "***could*** become subject to new, revised, or enhanced regulatory requirements in the future, which ***could*** result in increased costs, ***could*** delay or prevent our introduction of new services, or ***could*** impair the function or value of our existing services, which ***could*** materially and adversely affect our results of operations and growth prospects."

33. These statements were inaccurate statements of material fact because they failed to disclose that Inovalon was already subject to higher corporate tax rates in states where it did substantial business such as New York, it was then deriving at least a million dollars per year in revenues from New York City, and under the then-imminent New York City tax reforms being applied retroactively back to January 1, 2015, Inovalon's receipt of more than $1 million in annual revenues from New York City would trigger the New York City "nexus" for business income taxes payable to New York City, and, that as a result, Inovalon's 2015 effective tax rate was materially above 39% which had not only materially increased Inovalon's until-then purportedly "stable" 39% effective tax rate, but would negatively impact Inovalon's then-current and future financial results and prospects, including Inovalon's then-present and current earnings.

34. The Registration Statement was required to disclose all of the foregoing omitted material facts for three independent reasons. First, under the rules and regulations governing the preparation of the Registration Statement, Inovalon was required to provide information called for by Item 303(a) of Regulation S-K. Item 303(a) required disclosure of any known events or uncertainties that at the time of the IPO had caused or were reasonably likely to cause Inovalon's disclosed financial information not to be indicative of future operating results. Due to the undisclosed revenues the Company was then deriving from its business in the State of New York and the City of New York, both of which were then implementing imminent corporate tax rate increases, Inovalon's 2015 effective tax rate had increased, which was likely to (and in fact did) materially, adversely affect Inovalon's 2015 and future earnings and the Company's financial prospects.

35. Second, under the rules and regulations governing the preparation of the Registration Statement, Inovalon was required to provide information called for by Item 503 of Regulation S-K. Item 503 required, in the "Risk Factor" section of the IPO Registration Statement, a discussion of the most significant factors that make the offering risky or speculative and that each risk factor adequately describes the risk. Inovalon's discussions of risk factors did not even mention, much less adequately describe, the risk posed by the fact that Inovalon then received substantial revenues from New York State, including more than $1 million in annual sales in New York City, the 2014 New York State and 2015 New York City corporate tax rate increases, and the resulting increase in Inovalon's effective tax rate, nor the likely and consequent material adverse impact on the Company's 2015 financial results and its future financial prospects.

36. Third, defendants' failure to disclose the revenues it was deriving in New York City and New York State causing the substantial increase in Inovalon's effective tax rate, as well as the likely material effects that the increase would have on Inovalon's earnings and share price, rendered

the Registration Statement's claim that Inovalon's year-over-year "effective income tax rate . . . ***remained relatively stable at 39%***," as well as the Registration Statement's many references to known risks, which, "***if***" they occurred, "***might***" or "***could***" adversely affect the Company were inaccurate statements of material fact. These "risks" had already materialized at the time of the IPO.

37. The IPO was extremely lucrative for Inovalon and generated more than $680 million in gross proceeds.

38. On March 25, 2015, Inovalon announced its fourth quarter and fiscal year 2014 results for the interim period ended December 31, 2014, stating in its press release issued that day – ***without explanation*** – that its effective tax rate had increased to 40% for fiscal year 2014, well before the IPO. During the conference call Inovalon held with analysts and investors that evening, defendant Dunleavey provided 2015 annual net income guidance, expressly emphasizing the impact that the Company's effective tax rate had on its financial guidance, which he explained was material to investors' understanding of the Company's business and financial prospects, stating, in pertinent part, as follows:

> ***In an effort to inform models regarding the Company's projections and otherwise educate stockholders and others regarding the Company's 2015 guidance, the following information will hopefully be helpful***. The Company's non-GAAP net income and related non-GAAP diluted net income per share guidance includes . . . and ***an effective tax rate of 40%***.

39. On March 31, 2015, Inovalon filed its annual report on Form 10-K for fiscal year 2014 with the SEC. The 10-K stated that Inovalon's "***effective income tax rate in 2014 was 40% compared to 38% in 2013***," disclosing that the "increase in [its] effective income tax rate was due primarily to ***an increase in [its] effective state income tax rate***." However, this statement significantly understated the full impact of the New York State and New York City corporate tax rate increases that had gone into effect on January 1, 2015.

40. On May 6, 2015, after the close of trading, Inovalon announced its first quarter 2015 financial results for the quarter ended March 31, 2015, ***during which the IPO had been conducted***, stating – ***again without any explanation*** – that the "Company's Non-GAAP net income and related Non-GAAP diluted net income per share guidance [now] include[d] ***a revised effective tax rate estimate of 41%***, an increase from the Company's ***initial 2015 guidance of 40%***." During the conference call held with investors that evening, defendant Dunleavy reiterated the effective tax rate being used to provide the 2015 guidance, stating, in pertinent part, that the "guidance include[d] ***a revised effective tax rate estimate of 41%, an increase of 1% from the Company's initial 2015 guidance of 40% even***." Defendant Dunleavy provided no further explanation concerning the tax rate increase.

41. When the Company filed its quarterly financial report on Form 10-Q for the first quarter 2015 with the SEC on May 8, 2015, the Company confusingly disclosed that rather than an effective tax rate of 41%, as had been provided in the May 6, 2015 press release and during the investor conference held that evening, "[d]uring the three months ended March 31, 2015, [the Company's] provision for income taxes increased by approximately $1.1 million, or 12%, compared to the three months ended March 31, 2014," stating that the "increase was primarily driven by ***the effective tax rate of 43% for the three months ended March 31, 2015*** compared to 39% in the same period of the prior year." The Form 10-Q now further stated that the "increase in [the Company's] effective tax rate for the three months ended March 31, 2015 was attributable to a ***$0.6 million increase in expected state income taxes***, net of federal income tax effect, ***driven by unfavorable state legislative changes*** as well as a state deferred tax expense adjustment of $0.5 million." Again, this failed to disclose the then-pending New York State and New York City corporate tax rate increases. And because the earnings figures the Company had released on May 6th were non-

GAAP, whereas these were prepared in compliance with GAAP, the Company's failure to highlight the actual change in the effective tax rate made it difficult for investors to detect.

42. Indeed, few – if any –in the investment community took notice of the increase in the Company's reported effective tax rate for the first quarter 2015 because the Company had not yet explained the extent of the corporate tax rate increases or disclosed that due to those corporate tax rate increases, the Company was cutting its fiscal 2015 earnings and earnings per share guidance. For example, when Underwriter Defendant UBS's Steve Valiquette published a research report on the Company on June 1, 2015 affirming his $35 price target, his financial modeling still included a "41% effective tax rate" for the Company for fiscal year 2015.

43. On August 5, 2015, after the markets closed, Inovalon issued a press release announcing its second quarter 2015 financial results for the interim period ended June 30, 2015. The release finally disclosed the negative impact the New York State and New York City corporate tax reforms had on Inovalon's fiscal 2015 earnings and lowered the Company's 2015 earnings forecast accordingly. The release stated, in pertinent part, as follows:

> ***Tax Rate Change: During the quarter, New York City enacted corporate tax reform legislation retroactive to January 1, 2015 which increased the Company's effective tax rate by 1.7% and 1.1% for the three and six months ended June 30, 2015, respectively. This legislation negatively impacted Non-GAAP diluted net income per share during the quarter by $0.01. The cumulative effect of tax legislation modifications are expected to negatively impact the full year Non-GAAP diluted net income per share for 2015 by approximately $0.03***.

44. In addition to the increased effective tax rate lowering the Company's reported second quarter 2015 GAAP earnings per share by $0.01, the release disclosed that the Company was also finally reducing its fiscal 2015 earnings guidance due to the "***increase in the effective tax rate from 41% to 43%***." Non-GAAP net income would now come in between $75 million and $80 million, down from the range of $80 million to $85 million provided on March 25, 2015, and Non-

GAAP diluted net income per share would come in between $0.51 and $0.54, down from the range of $0.54 - $0.57 provided on March 25, 2015.

45. During the conference call held with investors that evening, defendant Kloster stated that the New York State and New York City corporate tax reforms had reduced the Company's GAAP earnings per share by $0.01 in the second quarter 2015 and had significantly increased the Company's effective tax rate going forward to 43%, stating, in pertinent part, as follows:

> [W]e continue to see various states and municipalities implement revised methodologies for corporations to apportion their income to their respective states and municipalities. ***These new legislative acts have resulted in a significant increase in our effective tax rates versus original expectations entering the year***. In Q2, New York City enacted new legislation which was retroactive back to January 1, 2015. ***This legislation alone, increased our effective tax rate during the second quarter by 1.7% and lowered our earnings per share by $0.01 in the second quarter. The tax legislation changes over the course of the year have altered our effective tax rate to be 43% for the full year, versus our original expectations of 40% and have reduced our earnings per share estimates by $0.03 for the full year***. We are actively considering methods to reduce our effective tax rate, but any action we may take is not expected to have an effect on 2015.

46. Asked later in the call about the potential methods the Company was "considering" to "reduce" its "effective tax rate" as defendant Kloster had alluded to above, defendant Kloster finally admitted that New York was one of Inovalon's most "***significant*** . . . ***high rate states***," and that the Company was "actively" attempting to manage its New York State and City taxes, stating, in pertinent part, as follows:

> **Matt Gilmore - Robert W. Baird & Co. - Analyst**
>
> . . . . Tom, you -- I think you mentioned Inovalon's exploring some methodologies to produce a tax rate. Can you give us a sense for what strategies you may be considering? And, if you execute those strategies, how big of an impact that would have on your tax rate?
>
> **Tom Kloster - Inovalon Holdings, Inc. - CFO**
>
> Yes, Matt. I certainly can. Our effective tax rate, which now is 43% for the full year. Is really driven by the state considerations. And, that's what happened in Q2.

> As various states and municipalities are changing the methodology of how we apportion income into their respective states. So, we are exploring. I think it's premature to comment that there's anything that we're going to do that would lower that effective tax rate. Some of it will just happen naturally. Based on a dispersion of our clients and where those clients are. So, ***most of our significant states, or, at high rate states, have already changed their methodologies***.
>
> So, we shouldn't see too much more effect of any further changes. But, ***we are actively looking at various alternatives***.

47. On this news, the price of Inovalon shares plummeted $7.62 per share, ***or 30%***, from a close of $25.40 per share on August 5, 2015 to trade as low as $17.78 per share in intra-day trading on August 6, 2015, on unusually high trading volume of more than 2.2 million shares trading, or more than seven and a half times the average daily volume over the preceding ten trading days.

48. Market analysts slashed their forecasts and share price targets for Inovalon. In his August 5, 2015 report, Underwriter Defendant UBS's Steven Valiquette lowered his price target from $35 down to $32 emphasizing that "EPS was lowered to $0.51-$0.54 EPS due to a higher tax rate," causing the firm to lower its own fiscal 2015 EPS target "on the higher tax." In its August 6, 2015 report, Underwriter Defendant Piper Jaffrey's Sean W. Wieland stated that "Inovalon missed revenues and EPS on contract slippage and a higher tax rate . . . . [This] is not a positive. . . . We are lowering our PT to $24 [from $31]. . . ." Underwriter Defendant William Blair's Ryan Daniels and Jeffrey Garro's August 5, 2015 report lowered their "adjusted EPS" target "down two cents year-over-year" to $0.53 "solely due to increased tax-rate assumptions . . . ." Underwriter Defendant Wells Fargo's Jamie Stockton's, Stephen Lynch's and Nathan Weissman's August 5, 2015 report also noted that "EPS came down a few cents on taxes" causing them to reduce their 2015 EPS target by "$0.04 to $0.53" and their 2016 EPS target by "$0.05 to $0.67, ***mostly on taxes***." Later in their report they emphasized that "[s]tates [had] started to hike tax rates, which hurt INOV to the tune of $0.01 in the quarter." They also stated that the "only adjustment to 2015 guidance was an increase in the tax rate from 41% to 43%, which took the EPS outlook down to $0.03," stating that "[w]hile

the company is working on ways to negate that in the future years, ***we are assuming it is permanent for now***."

49. At the time of the filing of this complaint, Inovalon shares trade at less than $18 per share, ***more than one-third lower than the IPO price***.

CLASS ACTION ALLEGATIONS

50. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all those who purchased Inovalon Class A common stock pursuant or traceable to the Registration Statement issued in connection with the IPO (the "Class"). Excluded from the Class are defendants and their families, the officers and directors and affiliates of defendants, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

51. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Inovalon or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice similar to that customarily used in securities class actions.

52. Plaintiff's claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

53. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

54. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether defendants violated the 1933 Act;

(b) whether the Registration Statement was negligently prepared and contained inaccurate statements of material fact and omitted material information required to be stated therein; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

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

COUNT I

For Violation of §11 of the 1933 Act
Against All Defendants

56. Plaintiff incorporates ¶¶1-55 by reference.

57. This Count is brought pursuant to §11 of the 1933 Act, 15 U.S.C. §77k, on behalf of the Class, against all defendants.

58. The Registration Statement contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not inaccurate statements of material fact, and omitted to state material facts required to be stated therein.

59. Defendants are strictly liable to plaintiff and the Class for the misstatements and omissions.

60. None of the defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not inaccurate.

61. By reason of the conduct herein alleged, each defendant violated, and/or controlled a person who violated, §11 of the 1933 Act.

62. Plaintiff acquired Inovalon shares traceable to the Registration Statement.

63. Plaintiff and the Class have sustained damages. The value of Inovalon common stock has declined substantially subsequent to and due to defendants' violations.

64. At the time of their purchase of Inovalon shares, plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to the disclosures herein. Less than one year has elapsed from the time that plaintiff discovered or reasonably could have discovered the facts upon which this complaint is based to the time that plaintiff commenced this action. Less than three years has elapsed between the time that the securities upon which this Count is brought were offered to the public and the time plaintiff commenced this action.

COUNT II

For Violation of §15 of the 1933 Act Against Inovalon and the Individual Defendants

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

66. This Count is brought pursuant to §15 of the 1933 Act against Inovalon and the Individual Defendants.

67. The Individual Defendants were controlling persons of Inovalon by virtue of their positions as directors and/or senior officers of Inovalon. The Individual Defendants each had a series of direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major shareholders of Inovalon. The Company controlled the Individual Defendants and all of Inovalon's employees.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for relief and judgment, as follows:

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

B. Awarding damages in favor of plaintiff and the Class against all defendants, jointly and severally, in an amount to be proven at trial, including interest thereon;

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

D. Awarding rescission or a rescissory measure of damages; and

E. Such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiff demands trial by jury.