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11 **UNITED STATES DISTRICT COURT**
12 **NORTHERN DISTRICT OF CALIFORNIA**

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14 SECURITIES AND EXCHANGE COMMISSION,
15 Plaintiff,
16 vs.
17 BABA NADIMPALLI,
18 Defendant.

Case No.
COMPLAINT

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

21 **SUMMARY OF THE ACTION**

22 1. From at least January 2021 through February 2022, Baba Nadimpalli
23 (“Nadimpalli” or “Defendant”) engaged in a fraudulent scheme to raise more than \$30 million
24 from investors by falsely inflating the commercial success of SKAEL, Inc., a software business
25 Nadimpalli co-founded in 2016 and ran as its CEO until July 2022. Nadimpalli lied to prospective
26 SKAEL investors by telling them that SKAEL ended 2020 with more than \$2 million in “annual
27 recurring revenue” (“ARR”), an important metric for its current and future success, and that it
28 ended 2021 with \$7 million in ARR. Nadimpalli also provided prospective investors with offering

1 materials suggesting that SKAEL’s customers included public companies and well-known brands
2 at a time when none of those companies had a commercial relationship with SKAEL. To help
3 perpetuate this fraud, Nadimpalli provided a SKAEL finance employee and at least one investor
4 with fake bank statement information that purported to show millions of dollars in nonexistent
5 payments to SKAEL from customers.

6 2. Nadimpalli also misappropriated hundreds of thousands of dollars of investor
7 funds. He used at least \$270,000 of money raised from SKAEL investors to pay for personal
8 expenses like mortgage payments, home renovations, and car payments.

9 3. In May 2022, Nadimpalli admitted to certain SKAEL investors that, contrary to
10 what he had told them previously, SKAEL did not have more than \$7 million in ARR. SKAEL’s
11 Board of Directors convened a Special Committee to conduct an internal investigation into the
12 matter. Before the investigation concluded, Nadimpalli and the other members of SKAEL’s Board
13 of Directors voted to wind down the company. Nadimpalli subsequently left the United States.

14 4. As a result of the conduct alleged in this complaint, Defendant violated Section
15 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rule
16 10b-5 thereunder [17 C.F.R. § 240.10b-5], and Section 17(a) of the Securities Act of 1933
17 (“Securities Act”) [15 U.S.C. § 77q(a)].

18 5. In this action, the SEC seeks: permanent injunctions; disgorgement of ill-gotten
19 gains with prejudgment interest; and civil monetary penalties. The SEC also seeks an order
20 prohibiting Defendant from participating in the issuance, purchase, offer, or sale of any securities,
21 and imposing an officer and director bar against Defendant.

22 JURISDICTION AND VENUE

23 6. The SEC brings this action pursuant to Sections 20(b), 20(d), and 22(a) of the
24 Securities Act [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)], and Sections 21(d), 21(e), and 27 of the
25 Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

26 7. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1),
27 and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a)], and Sections 21(d),
28 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

1 prospective subscribers how digital employees worked and how SKAEL's software could be
2 adapted to subscribers' business needs. Prospective subscribers typically paid SKAEL a one-time
3 fee to develop a proof of concept. But most companies that paid for a proof of concept did not
4 become stable, long-term subscribers.

5 **B. In Early 2021, Nadimpalli Raised \$1 Million From an Investor by Lying About**
6 **SKAEL's Annual Recurring Revenue and Creating Fake Bank Statements.**

7 15. On January 5, 2021, Nadimpalli sent a venture capital firm ("VC1") an email
8 stating that SKAEL had ended 2020 with \$2.1 million in ARR. ARR is the amount of revenue that
9 a business, at a point in time, expects to realize over the next 12 months on the basis of existing
10 subscriptions and contractual agreements. Nadimpalli also told VC1 that SKAEL had ended 2019
11 with \$300,000 in ARR, which implied that SKAEL's year-end 2020 ARR represented 600% in
12 year-over-year growth.

13 16. This statement about 2020 ARR was false. Nadimpalli knew, or was reckless in not
14 knowing, that SKAEL did not actually end 2020 with \$2.1 million in ARR. In reality, SKAEL
15 never had any more than \$170,000 in ARR at any point from 2020 to 2022.

16 17. VC1 considered ARR to be an important metric for evaluating potential
17 investments, and based on SKAEL's purported growth, VC1 offered to make an investment in
18 SKAEL. In the course of negotiating the investment, VC1 asked Nadimpalli to provide bank
19 statements supporting Nadimpalli's claims about SKAEL's ARR. In order to support his
20 fraudulent claims about SKAEL's ARR, on January 28 and February 1, 2021, Nadimpalli emailed
21 VC1 several months' worth of doctored bank statements, which showed hundreds of thousands of
22 dollars in nonexistent payments, many of them purportedly made by companies that were not
23 SKAEL customers. Nadimpalli knew, or was reckless in not knowing, that the bank statements he
24 provided to VC1 were fake.

25 18. On February 2, 2021, after receiving the fake bank statements, VC1 paid SKAEL
26 \$1 million for a Simple Agreement for Future Equity, or "SAFE." A SAFE is a type of derivative
27 security that converts into preferred stock upon the occurrence of triggering events specified in the
28 SAFE.

1 19. Nadimpalli was SKAEL’s primary contact with many potential and actual
2 customers. He also was the only person at SKAEL who had access to the bank account that
3 SKAEL used to receive payments from customers.

4 **C. In Late 2021 and Early 2022, Nadimpalli Raised More Than \$30 Million from**
5 **Investors by Continuing to Lie About SKAEL’s Annual Recurring Revenue and**
6 **Giving Investors Misleading Offering Materials.**

7 20. From at least August 2021 through February 2022, Nadimpalli solicited
8 investments in SKAEL’s “Series A” private offering. Throughout this period, Nadimpalli
9 promoted SKAEL to prospective investors using written presentation materials, or “pitch decks,”
10 representing that SKAEL had ended 2020 with \$2.3 million in ARR. An August 2021 version of
11 this pitch deck represented that SKAEL’s ARR at that time was \$4.78 million, and later versions
12 represented that SKAEL’s ARR had increased to \$7 million or more by the end of 2021. These
13 representations were all false. As Nadimpalli knew, or was reckless in not knowing, SKAEL never
14 had more than \$170,000 in ARR at any point when it was selling securities in 2021 and 2022.
15 Nadimpalli worked on drafts of these pitch decks and was the person from SKAEL who presented
16 the decks at investor meetings.

17 21. The pitch decks also contained a slide that purported to show the company logos of
18 SKAEL’s customers. As Nadimpalli knew, or was reckless in not knowing, that slide was
19 misleading because it included the logos of several companies that were not SKAEL subscribers.
20 Some of these companies had paid SKAEL for a proof of concept but had not become SKAEL
21 subscribers, and others had never been SKAEL customers of any type at all.

22 22. Nadimpalli also directed a SKAEL finance employee to create profit-and-loss
23 statements to distribute to prospective SKAEL investors. Instead of providing the finance
24 employee with direct access to the bank account where SKAEL received customer payments,
25 Nadimpalli provided the finance employee with spreadsheets that Nadimpalli claimed showed
26 transactions in the bank account. As Nadimpalli knew or was reckless in not knowing, these
27 spreadsheets, like the doctored bank statements that Nadimpalli had provided to VC1, were fake
28 and included millions of dollars in nonexistent customer payments. The finance employee relied

1 on these spreadsheets to create profit-and-loss statements, with the result that those statements
2 inflated SKAEL's revenue and ARR by millions of dollars. SKAEL provided prospective
3 investors with these fraudulent profit-and-loss statements.

4 23. In late November or early December 2021, Nadimpalli presented the pitch deck
5 described above to another venture capital firm ("VC2"). Nadimpalli falsely represented to VC2
6 that SKAEL's ARR at the end of 2021 was \$7 million. Nadimpalli also gave VC2 a spreadsheet
7 that purported to show a customer-by-customer breakdown of SKAEL's ARR as of November
8 2021. That spreadsheet falsely represented that SKAEL's ARR in November 2021 was more than
9 \$6 million; it also falsely ascribed more than \$1 million in ARR to a particular SKAEL subscriber
10 who, in reality, had a subscription worth only \$60,000 per year. Nadimpalli knew, or was reckless
11 in not knowing, that all of these representations about SKAEL's ARR were false. VC2 considered
12 ARR to be an important metric for evaluating potential investments. On February 7, 2022, VC2
13 paid SKAEL more than \$15.7 million for SKAEL preferred stock.

14 24. In November 2021, Nadimpalli presented the August 2021 version of the pitch
15 deck described above to a third venture capital firm ("VC3"). At that time, Nadimpalli also
16 verbally claimed to VC3 that SKAEL's ARR was \$6 million. In December 2021 or January 2022,
17 Nadimpalli presented another version of the pitch deck to VC3, this one representing that
18 SKAEL's ARR had grown to \$7.2 million. Nadimpalli knew or was reckless in not knowing that
19 these ARR numbers were false. VC3 considered ARR to be an important metric for evaluating
20 potential investments. On December 16, 2021, VC3 paid SKAEL \$1 million for a SAFE. On
21 February 1, 2022, VC3 paid SKAEL an additional \$7 million for SKAEL preferred stock.

22 25. On a December 14, 2021 telephone call, Nadimpalli told VC1 that SKAEL was
23 finishing 2021 with more than \$7 million in ARR. Nadimpalli knew or was reckless in not
24 knowing that this was false. On February 1, 2022, VC1 paid SKAEL more than \$2.2 million for
25 SKAEL preferred stock.

26 26. In total, eight investors collectively paid SKAEL almost \$30 million for preferred
27 stock during SKAEL's Series A private offering (not including VC1 and VC3's \$1 million SAFE
28 investments). Among other things, investor money was used to pay Nadimpalli's salary at SKAEL.

1 c. Engaged in acts, practices, or courses of business which operated or would
2 operate as a fraud or deceit upon other persons, including purchasers of
3 securities.

4 31. By reason of the foregoing, Defendant violated, and unless restrained and enjoined
5 will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5
6 thereunder [17 C.F.R. § 240.10b-5].

7 **SECOND CLAIM FOR RELIEF**

8 *Violations of Section 17(a) of the Securities Act*

9 32. The SEC re-alleges and incorporates by reference Paragraph Nos. 1 through 28.

10 33. Defendant, by engaging in the conduct described above, directly or indirectly, in
11 the offer or sale of securities, by use of the means or instruments of transportation or
12 communication in interstate commerce or by use of the mails:

- 13 a. with scienter, employed devices, schemes, or artifices to defraud;
- 14 b. obtained money or property by means of untrue statements of material fact
15 or by omitting to state a material fact necessary in order to make the
16 statements made, in light of the circumstances under which they were
17 made, not misleading; and
- 18 c. engaged in transactions, practices, or courses of business which operated or
19 would operate as a fraud or deceit upon purchasers.

20 34. By reason of the foregoing, Defendant violated, and unless restrained and enjoined
21 will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

22 **PRAYER FOR RELIEF**

23 WHEREFORE, the SEC respectfully requests that the Court:

24 **I.**

25 Permanently enjoin Defendant from directly or indirectly violating Section 10(b) of the
26 Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder, and
27 Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

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II.

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2 Permanently enjoin Defendant from directly or indirectly, including, but not limited to,
3 through any entity owned or controlled by him, participating in the issuance, purchase, offer, or
4 sale of any securities, provided however, that such injunction shall not prevent Defendant from
5 purchasing or selling securities for his own personal accounts.

III.

6
7 Enter an order prohibiting Defendant from serving as an officer or director of any issuer
8 having a class of securities registered with the SEC pursuant to Section 12 of the Exchange Act [15
9 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15
10 U.S.C. § 78o(d)], pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section
11 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)].

IV.

12
13 Issue an order requiring Defendant to disgorge all ill-gotten gains received as a result of his
14 unlawful conduct plus prejudgment interest thereon pursuant to Sections 21(d)(3), 21(d)(5), and
15 21(d)(7) of the Exchange Act [15 U.S.C. §§ 78u(d)(3), 78u(d)(5), and 78u(d)(7)].

V.

16
17 Issue an order requiring Defendant to pay civil monetary penalties pursuant to Section
18 20(d) of the Securities Act [15 U.S.C. § 77t(d)], and Section 21(d) of the Exchange Act [15 U.S.C.
19 § 78u(d)].

VI.

20
21 Retain jurisdiction over this action in accordance with the principles of equity and the
22 Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and
23 decrees that may be entered, or to entertain any suitable application or motion for additional relief
24 within the jurisdiction of this Court.

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VII.

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

Dated: September 24, 2024

Respectfully submitted,

/s/ Matthew Meyerhofer
Matthew Meyerhofer
Attorney for Plaintiff
SECURITIES AND EXCHANGE COMMISSION