UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MERRILL STEINBERG, Individually and On Behalf of All Others Similarly Situated, Plaintiff,	:	Civil Action No.
	:	<u>CLASS ACTION</u>
vs.	:	COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
ERICSSON LM TELEPHONE CO., CARL-HENRIC SVANBERG and KARL-HENRIK SUNDSTROM, Defendants.	:	
	x	<u>DEMAND FOR JURY TRIAL</u>

NATURE OF THE ACTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired publicly traded securities of Ericsson LM Telephone Co. ("Ericsson" or the "Company") between September 11, 2007 and October 15, 2007 (the "Class Period"), against Ericsson and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 ("1934 Act").

2. Defendant Ericsson is a Sweden-based company that offers a portfolio of telecommunication and data communication systems and services covering a range of technologies. Ericsson is headquartered in Stockholm, Sweden, with branch offices in the United States and around the globe. The Company's American Depositary Shares ("ADSs") are listed on the New York Stock Exchange.

3. During the Class Period, Defendants issued materially false and misleading statements regarding the Company's business and financial results. As a result of Defendants' false statements, Ericsson ADSs traded at artificially inflated prices during the Class Period, reaching a high of $41.96 per share on October 11, 2007.

4. Then, on October 16, 2007, before the market opened, Ericsson issued a release entitled "Lower than expected result for Ericsson in third quarter 2007." The release stated in part:

> Ericsson expects sales of SEK 43.5 b., an operating income of SEK 5.6 b. and a cash flow of SEK -1.6 b. for the third quarter 2007. This is below the company's own as well as current market expectations and primarily a result of an unexpected shift in the business mix.
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> "The unexpected development in the quarter is mainly due to a shortfall in sales in mobile network upgrades and expansions which resulted in an unfavorable business mix that also negatively affected Group margins," said Carl-Henric Svanberg, President and CEO of Ericsson. "All other businesses performed as expected. The effect of market dynamics is always a matter of judgment. This quarter we have underestimated the effects."
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> Ericsson's networks business continues to develop most rapidly in regions where new network rollouts and break-in contracts are predominant. This is where competition is intense as it builds footprint for long-term profitable growth. So far

the margin pressures from these business activities have been offset by higher margin sales such as network expansions and upgrades. Such expansions and upgrades have a short sales cycle and builds during the quarter. This quarter, sales of these higher margin offerings did not materialize as much as in previous quarters. High margin software sales are also lower than normal.

The Professional Services segment continues to show strong growth and stable margins. The Multimedia segment is expected to also show a strong growth with operating income slightly above breakeven level, reflecting the continued investments in new business areas.

"In infrastructure scale is critical for success. Our strategy to regain scale advantage through increased mobile systems market shares has been effective. The present market dynamics are however working to our disadvantage from a short-term financial perspective. Now that we have reestablished our scale advantage from the pre-industry consolidation we will shift our focus slightly and capitalize on our market share gains," said Carl-Henric Svanberg

*   *   *

The year-over-year sales increase of 6% consisted of organic growth of 4%. The USD has continued to weaken during the quarter and affected reported sales growth negatively.

The decline in gross margin is mainly due to an unfavorable business mix consisting of a high proportion of new network rollouts and lower software sales. In addition to the good growth in network rollout, sales of transmission systems, with a lower margin, showed strong growth, also negatively affecting Group gross margins.

Operating income amounted to SEK 5.6 (8.8) b. in the quarter and SEK 23.0 (23.6) b. year-to-date. In the Networks business mix, new network rollouts are now dominating and in combination with lower sales of software this caused the group operating margins to decline significantly during the quarter. Sony Ericsson's pre-tax profit contributed 4% to Group operating margin in the quarter.

Cash flow from operating activities is estimated to be SEK -1.6 (4.8) b. in the quarter and SEK 7.2 (7.5) b. year-to-date.

*   *   *

Networks

Sales in Networks declined mainly due to lower sales of expansions and upgrades of mobile networks with its related high software content. Sales of lower margin network rollouts and break-ins currently represent the majority of the networks business. It is this shift in business mix that is negatively affecting group margins rather than a change in the underlying margins.

* * *

> North American sales increased slightly year-over-year, however Ericsson had expected a more significant increase driven by mobile network expansions and upgrades of the installed base which so far has not materialized. In Western Europe Ericsson was also expecting similar sales which did not occur due to ongoing operator consolidation in several major markets.
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> Sales development in Asia-Pacific was flattish due to lower mobile systems sales in China. The underlying business activity is ongoing at a healthy level but invoicing varies quarter by quarter due to the nature of the Chinese market. Sales in Australia were down as a result of the completion of the initial HSPA network rollout. Excluding China and Australia sales growth was 17% in the region. All other regions developed as expected.
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> PLANNING ASSUMPTIONS
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> For the fourth quarter of 2007 our planning assumption is Group sales of SEK 53-60 b. and operating margins in the mid-teens, including Sony Ericsson.
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> For the market in 2008, our early expectation is that the current conditions will prevail.

5. After these results were issued, on October 16, 2007, Ericsson's stock collapsed to close at $31.33 per share, a decline of 24%, on volume of 42.7 million shares. In fact, by early September 2007, Defendants had good visibility into the quarterly results, which visibility improved each day of the Class Period, but defendants concealed the declining results from the investing public that they would have to make cuts to the Company's outlook until October 16, 2007. According to Richard Windsor, a telecom equipment analyst at Nomura, management credibility at Ericsson had been "somewhat shattered." "The management stood up in from of the market and said everything is OK, which means they did not know that this had been going on. . . . This calls into question if they are able to financially control their company," he said. As the Swedish newspaper *Svenska Dagbladet* would note on October 18, 2007, Company's management and the board did know about the shortfall before it was announced.

6. As a result of Defendants' false statements, Ericsson ADSs traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 24% from their Class Period high.

7. On October 18, 2007, *Associated Press* issued an article entitled "Report: Ericsson Board Knew of Outlook Cut; Report: Ericsson's Board, Management Knew About Cut in Outlook Earlier Than Admitted," which stated:

> The board and management of LM Ericsson AB knew last week that they would have to make dramatic cuts to the company's outlook, a Swedish newspaper reported Thursday.
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> On Tuesday, shares in the Stockholm-based company plunged nearly 30 percent after the wireless networks maker stunned markets by saying that third-quarter sales, operating profit and cash flow would be significantly lower-than-expected.
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> Ericsson's Chief Executive Carl-Henric Svanberg told investors and reporters the company had misjudged the dynamics of the market, but that it had only become aware of the problem 24 hours before it was announced.
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> On Thursday, however, daily newspaper Svenska Dagbladet, citing unnamed sources, reported that the company's management had been told about the new outlook on Sunday.
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> Ericsson did not immediately return phone calls seeking comment about the report.
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> Anders Ackebo, head of listing and supervision at the Stockholm stock exchange, said Ericsson had not breached its regulations – even if the management became aware the outlook cut earlier than it has reported – because the information was communicated so close to its third-quarter earnings report due on Oct. 25.
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> "This is according to the rules," he said. "You know there will be share-sensitive information in the quarterly reports, and so because it became known so close to the reporting date, they weren't required to disclose it, but they did anyway."
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> Ackebo added, however, that if management had been aware of the outlook cut as long as two to three weeks before its quarterly report, Ericsson would have been required to share it with the market.
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> "But by communicating anyway, they prevented any leaks," he said.

> Ericsson said Tuesday that it expected sales for the quarter ended Sept. 30 to come in at 43.5 billion kronor (euro4.75 billion; US$6.74 billion) and operating profit to be just 5.6 billion kronor (euro611.9 million; US$868.9 million).
>
> The announcement sparked new concerns about the tighter market that wireless equipment makers, including leader Alcatel-Lucent SA and Nokia Siemens, may face in the coming months.
>
> Shares of Ericsson were down 1.8 percent to 19.42 kronor (euro2.12; US$3.01).

JURISDICTION AND VENUE

8. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

9. Venue is proper here pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District. Ericsson has operations in this District and many of the acts and transactions giving rise to the violations of law complained of occurred here.

10. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

11. Plaintiff Merrill Steinberg purchased Ericsson publicly traded securities as described in the attached certification and was damaged thereby.

12. Defendant Ericsson is a Sweden-based company that provides communications networks, related services, and handset technology platforms for mobile and fixed network operators worldwide. The Company operates through three segments, Mobile Networks, Fixed Networks, and Professional Services. Ericsson is headquartered in Stockholm, Sweden.

13. Defendant Carl-Henric Svanberg ("Svanberg") is, and at all relevant times was, President, Chief Executive Officer ("CEO") and a director of Ericsson.

14. Defendant Karl-Henrik Sundstrom ("Sundstrom") is, and at all relevant times was, Executive Vice President and Chief Financial Officer ("CFO") of Ericsson.

15. Defendants Svanberg and Sundstrom (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Ericsson's quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, Svanberg and Sundstrom knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. Svanberg and Sundstrom are liable for the false statements pleaded herein.

16. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Ericsson. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Ericsson publicly traded securities was a success, as it: (i) deceived the investing public regarding Ericsson's prospects and business; (ii) artificially inflated the prices of Ericsson's publicly traded securities; and (iii) caused plaintiff and other members of the Class to purchase Ericsson publicly traded securities at inflated prices.

SUBSTANTIVE ALLEGATIONS

17. Ericsson provides communications networks, related services, and handset technology platforms for mobile and fixed network operators worldwide. The Company operates

through three segments, Mobile Networks, Fixed Networks, and Professional Services. The Mobile Networks segment provides mobile systems solutions to network operators, including radio base stations, base station and radio network controllers, mobile switching centers, and application nodes. The Fixed Networks segment supplies broadband communications equipment and services to fixed network operators in Latin America and Europe. The fixed network operators are moving from single-service networks toward broadband packet-switched multi-service networks that handle multiple services, such as voice, data, and images. The Professional Services segment provides consulting, education, systems integration, and managed services, as well as customer support services to the telecommunication industry.

18. The Class Period starts on September 11, 2007. On that date, the Company held its Strategy and Technology Summit Conference in London for analysts and investors. During the conference, Svanberg stated in part:

> Mobile broadband is becoming a mass market.
>
> With 128 commercial HSPA networks rolled out and more than 300 HSPA devices available around the world, mobile broadband is moving quickly toward becoming a mass market. . . .
>
> . . . "This is an exciting development in our industry. HSPA with speeds of 7.2 Mbps is now being launched, and we will see embedded modems in early 2008. This indicates that mobile broadband is already becoming part of our daily lives."
>
> * * *
>
> "We see clearly that the mobile phone will be essential in closing the digital divide. Mobility is a key contributor to productivity and quality of life in developing countries."

19. With this news, Ericsson's stock price increased to above $38 per share on September 11, 2007, and continued to increase. On September 12, 2007, Ericsson's stock had increased above $39 per share.

20. As *Bloomberg News* reported on September 11, 2007:

> Ericsson AB, the world's largest maker of wireless network equipment, climbed the most in more than a year in Stockholm trading after predicting ``strong'' industry growth in the third quarter as data traffic increases.
>
> Ericsson shares rose 5.4 percent. The company said its main network market will grow about 5 percent in 2007, reiterating an earlier target.
>
> "We have good reason over time to reach our old levels," Chief Executive Officer Carl-Henric Svanberg said at an event for investors in London today. ``We expect to continue to do well in all our areas.''
>
> Demand for networks that let users download music, view street maps on handheld devices or share files is "beyond any expectation," Svanberg said. Stockholm-based Ericsson is upgrading networks for more than 50 phone companies, with about 6 million customers signing up for faster mobile access each month globally, Ericsson said in documents distributed today. Ericsson said mobile subscribers globally will exceed 5 billion by 2012.
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> * * *
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> Ericsson shares rose 1.32 kronor to 25.80 kronor in Stockholm, the biggest gain since July 2006. Before today, the stock was up 2.4 percent in a year, trailing the 15 percent increase in Sweden's OMX Index.
>
> Multimedia Push
>
> The Swedish company has sought to capitalize on rising demand for wireless media applications by creating a multimedia division, partly with the help of acquisitions including Tandberg Television ASA. The performance of the multimedia division will remain ``bumpy'' because the unit is still in a start-up phase, Svanberg said, reiterating comments made in July.
>
> "We all can see that mobile broadband will be a mass market," Svanberg said. "Data will take over."

21. On September 28, 2007, Ericsson announced it had acquired 84% of the outstanding shares of LHS Aktiengesellschaft.

22. On September 28, 2007, Svanberg was interviewed in New York about Ericsson's future growth. As *Bloomberg* reported that day:

> Ericsson AB Chief Executive Officer Carl-Henric Svanberg may seek to revive declining sales in North America by selling more network equipment to Google Inc. and customers other than AT&T Inc. and Verizon Wireless.

Years from now, there will be "little difference" between the communications equipment that Google and more traditional phone service providers buy as technologies "converge," Svanberg, 55, said in an interview today in New York.

In addition to competing with mobile-phone rivals Nortel Networks Corp. and Alcatel-Lucent, Stockholm-based Ericsson is challenging Cisco Systems Inc. and Juniper Networks Inc. in the Internet-equipment business as more consumers use computers and mobile devices to download music, watch video clips, view maps and share files.

"Traditional operators will always be a major part of our business," Svanberg said. "In the multimedia world that arises, there will be other customers as well. It could be the cable guys; it could be Google."

* * *

North American Gains

Svanberg, who has run Ericsson since 2003, said the company may also see gains in North America as its rivals combine or cut jobs to revive profits.

* * *

"One of the openings we have in North America is to actually become the second vendor," Svanberg said. "We can be the main alternative. That was tougher before."

Buying Companies

Ericsson has sought to bolster its position in the U.S. by buying companies such as Redback Networks Inc. and Entrisphere Inc. to add broadband access technology. It also agreed to buy Tandberg Television ASA to acquire video-compression equipment that allows the transmission of data that would otherwise be too much for networks to transfer.

Svanberg said Ericsson is relying on technologies other than WiMax, a standard touted by Nortel, Intel Corp. and Motorola Inc. for speedier wireless Internet access. Sprint-Nextel Corp., the third-largest U.S. wireless carrier, plans to spend as much as $5 billion on a WiMax network by 2010.

"It's hard to see that it would suddenly start to become a major technology," Svanberg said. "If it did for some reason that we can't really see, then we'd be there as well."

Svanberg said he expects "strong" increases in data traffic to fuel demand. The company's 2007 industry forecast of "mid-single-digit" growth has been unchanged since February, when Ericsson cut its prediction from 5 percent to 10 percent.

23. On October 2, 2007, Ericsson issued a release about its participation in the Lightreading's Optical Expo in Dallas. The release stated in part:

> "Ericsson has not traditionally been known for its optical offerings in the North American market, but we are gaining momentum as we demonstrate superior network understanding and deliver innovative solutions," said Arun Bhikshesvaran, VP/GM, Strategy & Market Development. "In fact, Ericsson's Marconi MHL 3000 product was recently chosen for a U.S. government deployment. We are in further discussions with other network operators and service providers."

24. On October 15, 2007, Ericsson's shares closed at $40.93 per share.

25. The statements referenced above in ¶¶18, 20, 22 and 23 were each materially false and misleading when made as Defendants herein knew or recklessly disregarded the following material adverse facts:

(a) that the Company was experiencing declining sales in its networks due to lower sales of expansions and upgrades of mobile networks;

(b) that sales in Western Europe were declining due to operator consolidation in several markets; and

(c) as a result of the foregoing, Defendants lacked a reasonable basis for their positives statements about the Company's business.

26. Then, on October 16, 2007, before the market opened, Ericsson issued a release entitled "Lower than expected result for Ericsson in third quarter 2007." The release stated in part:

> Ericsson expects sales of SEK 43.5 b., an operating income of SEK 5.6 b. and a cash flow of SEK -1.6 b. for the third quarter 2007. This is below the company's own as well as current market expectations and primarily a result of an unexpected shift in the business mix.
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> "The unexpected development in the quarter is mainly due to a shortfall in sales in mobile network upgrades and expansions which resulted in an unfavorable business mix that also negatively affected Group margins," said Carl-Henric Svanberg, President and CEO of Ericsson. "All other businesses performed as expected. The effect of market dynamics is always a matter of judgment. This quarter we have underestimated the effects."

Ericsson's networks business continues to develop most rapidly in regions where new network rollouts and break-in contracts are predominant. This is where competition is intense as it builds footprint for long-term profitable growth. So far the margin pressures from these business activities have been offset by higher margin sales such as network expansions and upgrades. Such expansions and upgrades have a short sales cycle and builds during the quarter. This quarter, sales of these higher margin offerings did not materialize as much as in previous quarters. High margin software sales are also lower than normal.

The Professional Services segment continues to show strong growth and stable margins. The Multimedia segment is expected to also show a strong growth with operating income slightly above breakeven level, reflecting the continued investments in new business areas.

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The year-over-year sales increase of 6% consisted of organic growth of 4%. The USD has continued to weaken during the quarter and affected reported sales growth negatively.

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PLANNING ASSUMPTIONS

For the fourth quarter of 2007 our planning assumption is Group sales of SEK 53-60 b. and operating margins in the mid-teens, including Sony Ericsson.

For the market in 2008, our early expectation is that the current conditions will prevail.

27. After these results were issued, on October 16, 2007, Ericsson's stock collapsed to close at $31.33 per share, a decline of 24%, on volume of 42.7 million shares. In fact, by early September 2007, defendants had good visibility into the quarterly results, which visibility improved each day of the Class Period, but defendants concealed the true facts from the investing public that they would have to make cuts to the Company's outlook until October 16, 2007. According to Richard Windsor, a telecom equipment analyst at Nomura, management credibility at Ericsson had been "somewhat shattered." "The management stood up in from of the market and said everything is OK, which means they did not know that this had been going on. . . . This calls into question if they are able to financially control their company," he said. As the Swedish newspaper *Svenska Dagbladet* would note on October 18, 2007, Company's management and the board did know about the shortfall before it was announced.

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> The announcement sparked new concerns about the tighter market that wireless equipment makers, including leader Alcatel-Lucent SA and Nokia Siemens, may face in the coming months.

29. As a result of defendants' false statements, Ericsson ADSs traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 24% from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

30. By misrepresenting Ericsson's financial outlook, the defendants presented a misleading picture of the Company's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Ericsson's business was not as healthy as represented, Ericsson falsely represented that its business was growing.

31. These claims of profitability caused and maintained the artificial inflation in Ericsson's share price throughout the Class Period and until the truth about its future earnings was revealed to the market.

32. Defendants' false and misleading statements had the intended effect and caused Ericsson shares to trade at artificially inflated levels throughout the Class Period, reaching as high as $41.96 per share.

33. On October 16, 2007, defendants were forced to publicly disclose that Ericsson had not achieved even close to the results forecasted for it by the defendants, causing its share price to drop to $31.33 on October 17, 2007.

34. As a direct result of defendants' admissions and the public revelations regarding the truth about Ericsson's profitability and its actual business prospects going forward, Ericsson's share price plummeted 24%, falling from $40.93 per share on October 15, 2007 to $31.33 per share the following day, a one day decline of $9.60 per share. This drop removed the inflation from Ericsson's share price, causing real economic loss to investors who had purchased the shares during the Class Period.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5
Against All Defendants

35. Plaintiff incorporates ¶¶1-34 by reference.

36. During the Class Period, defendants 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.

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

(a) employed devices, schemes and artifices to defraud;

(b) 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

(c) 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 Ericsson publicly traded securities during the Class Period.

38. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Ericsson publicly traded securities. Plaintiff and the Class would not have purchased Ericsson publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act
Against All Defendants

39. Plaintiff incorporates ¶¶1-38 by reference.

40. The Individual Defendants acted as controlling persons of Ericsson within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of Ericsson stock, the Individual Defendants had the power and authority to cause Ericsson to engage in the wrongful conduct complained of herein. Ericsson controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

41. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Ericsson publicly traded securities during the Class Period (the "Class"). Excluded from the Class are defendants.

42. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Ericsson has over 1.59 billion shares of stock outstanding, owned by hundreds if not thousands of persons.

43. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the prices of Ericsson's publicly traded securities were artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

44. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

45. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

46. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages, including interest;

C. Awarding plaintiff's reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: October 29, 2007

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