

Southern District of New York: Plaintiffs Must Allege “How and Why” an Alleged Misstatement Was False and Misleading at the Time It Was Made

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On April 2, 2020, the Southern District of New York dismissed a securities fraud action because plaintiffs failed to “show how and why” defendants’ alleged misstatements were false and misleading at the time they were made. [In re Adient plc Sec. Litig., 2020 WL 1644018 \(S.D.N.Y. 2020\) \(Abrams, J.\)](#). The court underscored that “simply stating that the statements are false is not enough” to state a securities fraud claim.

Plaintiffs alleged that defendants made misstatements regarding the company’s progress towards its projected margin expansion, as well as improvements in the company’s metals business. The court noted that “[t]he underlying premise of the allegations regarding both sets of statements is that [d]efendants failed to disclose certain operational issues that existed within the [m]etals business.” Plaintiffs suggested that the company’s “projected margin expansion was not achievable” because of these issues.

The court found plaintiffs’ allegations insufficient to plead actionable misstatements. The court observed that “[d]efendants repeatedly made it clear that improvements in the [m]etals business was just one component of the projected margin expansion.” The court found that “even if it is true that [m]etals was not achieving certain specific improvements, such a finding does not lead to the conclusion that [the company’s] overall projected margin expansion or plan to improve [m]etals in general was ‘unreasonable’ or ‘unrealistic’—let alone false—at the time statements about it were made.”

The court also found that “[p]laintiffs seem to conflate [d]efendants’ statements about progress towards the projected margin expansion, on the one hand, and progress in improving the [m]etals business, on the other.” The court pointed out that “[v]irtually all of the challenged statements in the [complaint] about the [c]ompany being ‘on track’ were made in the context of the overall projected margin expansion, and did not concern specific improvements in the [m]etals division.” The court found that it was “entirely possible that, at the time these statements were made, [the company] was ‘on track’ to reach its projected margin expansion at some point in the future, regardless of any specific operational issues that may have existed in [m]etals at the time.”

The court noted that many of the statements at issue were subjective statements of opinion regarding the company’s progress towards the margin expansion. Plaintiffs’ “theory of liability as to these opinion statements is that [d]efendants allegedly failed to disclose underlying facts

that directly contradicted those statements.” But the court found that the complaint “does not plausibly allege any specific material facts—omitted from [d]efendants’ statements—that rendered the opinion statements false or misleading to a reasonable investor.” The court observed that defendants in fact “publicly acknowledged that [m]etals needed ‘fixing’” and “disclosed specific operational issues in the [m]etals business as they arose.”

The court also found that many of the statements at issue were forward-looking within the meaning of the PSLRA, even though they included both present and future statements. The court explained that “when the present-tense portion of mixed present and future statements does not provide specific information about the current situation, but merely says that, whatever the present situation is, it makes the future projection attainable, the present tense portion of the statement is too vague to be actionable apart from the future projection.” The court found “statements that the [c]ompany was ‘on track’ to reach the projected margin expansion and related growth” were “too vague to be actionable apart from the future projection,” as they “provide no specific information as to [the company’s] current circumstances.”

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