

Northern District of California: Dismissal Denied as Reasonable Minds Could Differ on Whether “Technical and Narrow” Disclosures Were Sufficient to Reduce the Risk of Misleading Investors (Securities Law Alert)

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On January 14, 2022, the Northern District of California largely denied the dismissal of a putative securities class action alleging that a solid-state battery manufacturer and certain of its executives misrepresented that the testing conditions of the company’s batteries were not compromised and that the testing condition disclosures were insufficient to reduce the risk of misleading investors to “nil.” *In re* [Quantumscape Sec. Class Action Litig.](#), 2022 WL 137729 (N.D. Cal. 2022) (Orrick, J.). The court found that the testing data disclosures “were certainly extensive and may well weaken or even defeat the plaintiffs’ case at a later stage when a factfinder can weigh them contextually.” However, at the motion to dismiss stage, the court held that it “cannot conclude that the adequacy of the disclosure is so obvious that reasonable minds could not differ about whether the statements were misleading.”

Background

Plaintiffs alleged that defendants repeatedly falsely represented that their solid-state batteries had overcome certain well-known technical challenges, which prevented their successful commercialization, and that they were comparable to or outperformed conventional batteries. Plaintiffs also alleged that defendants’ tests were “compromised” to make their batteries’ performance look more promising than it was, and that their batteries performed meaningfully worse than conventional batteries. After plaintiffs’ lawsuits were consolidated, defendants moved to dismiss.

“Technical and Narrow” Disclosures May Not Render “Categorical” Statements Non-Misleading

Defendants claimed that their statements^[1] were not actionable because the testing methodologies and conditions were accurately disclosed. Defendants further argued that the testing statements amounted to interpretations of the data. Citing the standard used by the Supreme Court in *Virginia Bankshares v. Sandberg*, 501 U.S. 1083 (1991), plaintiffs argued that because defendants affirmatively represented that the conditions were not compromised when the conditions were in fact compromised, “the disclosure of test conditions were insufficient to reduce the risk of misleading investors to ‘nil’ especially where it would take an expert to know that the test conditions were compromised.”

The court stated that it could not conclude that the adequacy of the disclosures was so obvious that reasonable minds could not differ about whether the overall statements were misleading. The court noted that the disclosures revealed particular information (such as discrete testing conditions), but the allegedly misleading statements also included “broader, more categorical statements.” The court stated that it could not “definitively say that these more categorical statements would be rendered entirely non-misleading by the far more technical and narrow disclosures that [defendants] rel[y] on.” The court stated that it was reasonable to think that investors were entitled to rely on the unequivocal representation that the testing results were not compromised. Citing *Virginia Bankshares*, the court determined that, given the overall “mixture” of information, it could not say that defendants’ disclosure of hyper-technical testing details would “discredit” the allegedly misleading statement (that others used compromised conditions but defendants did not) “so obviously that the risk of real deception *drops to nil*.” The court similarly determined that the overall mix of information concerning the representation that the technical challenges had been solved did not lead it to conclude that the risk of deception was “nil.”

[1] Specifically, that the solid-state batteries were tested with uncompromised conditions/in real-world conditions; that, based on those test results, the technical challenges had been solved; and that, consequently, the batteries were ready for broader commercialization if production could be ramped up and the batteries could be layered.

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