UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

Michel v. Sumo Logic, Inc.

No. 23-cv-03665-BLF (N.D. Cal. Apr. 8, 2025) · No. 23-cv-03665-BLF · Decided April 8, 2025

SUMMARY

The United States District Court for the Northern District of California considers Defendants' motion to dismiss a putative class action alleging violations of Sections 14(a) and 20(a) of the Securities Exchange Act arising from alleged omissions in Sumo Logic's merger proxy statement. The court holds that the Section 14(a) claim sounds in fraud and remains inadequately pleaded under Rule 9(b) and the PSLRA, granting the motion in part with leave to amend and denying it in part.

CASE DETAILS

COURT	United States District Court for the Northern District of California
WRITING FOR THE COURT	Beth Labson Freeman
JURISDICTION	United States District Court for the Northern District of California
DECIDED	April 8, 2025
DOCKET	23-cv-03665-BLF
DISPOSITION	other
PROCEDURAL POSTURE	Defendants moved under Federal Rule of Civil Procedure 12(b)(6) to dismiss a putative class action complaint alleging violations of Sections 14(a) and 20(a) of the Securities Exchange Act based on alleged omissions in a merger proxy statement.
STANDARD OF REVIEW	On a Rule 12(b)(6) motion, the court accepts well-pleaded factual allegations as true and construes them in the plaintiff's favor, but does not accept conclusory allegations, unwarranted factual deductions, or unreasonable inferences. Claims sounding in fraud must satisfy Rule 9(b) and the PSLRA's particularity requirements.
PRECEDENTIAL VALUE	nonprecedential

TOPICS

securities fraud · motions to dismiss · pleadings · class actions · civil procedure

PRACTICE AREAS

securities law · corporate law · civil procedure · class actions

QUESTIONS PRESENTED

1. Whether plaintiffs' Section 14(a) claim sounded in fraud and therefore had to satisfy Federal Rule of Civil Procedure 9(b) and the PSLRA's particularity requirement.
2. Whether plaintiffs adequately pleaded negligence by alleging that Sayar should have been aware of and corrected the alleged proxy omissions.
3. Whether the proxy's omission of Sumo Logic's third- and fourth-quarter guidance beats was materially misleading under Section 14(a) and Rule 14a-9.
4. Whether the alleged omissions were subject to the PSLRA's safe harbor for forward-looking statements.
5. Whether plaintiffs adequately pleaded loss causation.
6. Whether plaintiffs adequately pleaded a controlling-person claim under Section 20(a).

HOLDINGS

1. The Section 14(a) claim sounded in fraud because the Second Amended Complaint alleged a unified course of fraudulent conduct involving self-dealing, mismanagement, and a misleading proxy statement; Rule 9(b) and the PSLRA's Section 4(b)(1) particularity requirement therefore applied.
2. Plaintiffs failed to plead negligence with the particularity required by Rule 9(b) and PSLRA Section 4(b)(1) because they did not allege specific facts showing that Sayar should have been aware that the proxy omitted the third- and fourth-quarter guidance beats or explaining how he negligently performed his duty.
3. Plaintiffs failed to adequately allege that the proxy's omission of Sumo Logic's third- and fourth-quarter guidance beats was materially misleading.
4. The alleged omissions concerned concrete past financial results and therefore were not forward-looking statements subject to the PSLRA safe harbor.
5. Plaintiffs adequately pleaded loss causation as to the two alleged proxy omissions.
6. Plaintiffs failed to adequately plead their Section 20(a) claim because they failed to adequately plead the underlying Section 14(a) violation.

KEY QUOTATIONS

> *"Rule 9(b) applies "where a claim is grounded in fraud or sounds in fraud, even if fraud is not an essential element" of the claim."* (IV.A)

> *"An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote."* (IV.B.2.b)

> *"Here, the two statements concerning Sumo Logic's Q3 and Q4 2023 earnings are not forward-looking because they concern omitted facts about "concrete circumstances that have already occurred.""* (IV.B.2.c)

FACTUAL BACKGROUND

Sumo Logic, Inc. entered into a merger agreement with Francisco Partners after a process involving its board, management, and financial adviser Morgan Stanley. The merger proxy disclosed that Sumo Logic had exceeded guidance in the second quarter but allegedly omitted that it had also exceeded guidance on three metrics in the third and fourth quarters of fiscal year 2023. The proxy also stated that fourth-quarter results were below the company's internal forecast, and plaintiffs alleged that these disclosures created a misleading impression about the company's performance. The merger closed on May 12, 2023, generating cash payouts for defendant Ramin Sayar, Sumo Logic's chief executive officer and a director.

PROCEDURAL HISTORY

Joseph Michel filed the action on July 25, 2023, and Armin Wasicek, Devendra Modium, and Ranjit Kapil were later appointed as co-lead plaintiffs. Plaintiffs filed an amended complaint, which the court partially dismissed on June 24, 2024, granting leave to amend. Plaintiffs then filed the Second Amended Complaint, and defendants moved to dismiss. The court granted the motion in part with leave to amend and denied it in part.

DISPOSITION

other

REMAND INSTRUCTIONS

No remand. Plaintiffs may file another amended complaint within 60 days of entry of the order. The amended complaint must include a numbered chart identifying each alleged false or misleading statement, the speaker, date, reason for falsity, and corresponding complaint paragraphs, and plaintiffs must provide a redlined version.

CASES CITED

- Conservation Force v. Salazar, 646 F.3d 1240, 1241-42 (9th Cir. 2011)
- Navarro v. Block, 250 F.3d 729, 732 (9th Cir. 2001)
- Reese v. BP Exploration (Alaska) Inc., 643 F.3d 681, 690 (9th Cir. 2011)
- In re Gilead Sciences Securities Litigation, 536 F.3d 1049, 1055 (9th Cir. 2008)
- Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009)
- Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 570 (2007)
- N. Star International v. Arizona Corporation Commission, 720 F.2d 578, 581 (9th Cir. 1983)
- In re VeriFone Holdings, Inc. Securities Litigation, 704 F.3d 694, 701 (9th Cir. 2013)
- In re Bare Escentuals, Inc. Securities Litigation, 745 F. Supp. 2d 1052, 1065 (N.D. Cal. 2010)
- Finjan Holdings, Inc., 58 F.4th 1048, 1052, 1057-59, 1064 (9th Cir. 2023)
- Mehedi v. View, Inc., No. 21-CV-06374-BLF, 2023 WL 3592098, at *13 (N.D. Cal. May 22, 2023)
- Barron v. Reich, 13 F.3d 1370, 1377 (9th Cir. 1994)
- Lee v. City of Los Angeles, 250 F.3d 668, 689 (9th Cir. 2001)
- In re Silicon Graphics Inc. Securities Litigation, 183 F.3d 970, 986 (9th Cir. 1999)
- Metzler Investment GMBH v. Corinthian Colleges, Inc., 540 F.3d 1049, 1064 n.7 (9th Cir. 2008)

- Heliotrope General, Inc. v. Ford Motor Co., 189 F.3d 971, 981 n.18 (9th Cir. 1999)
- Rubke v. Capitol Bancorp Ltd., 551 F.3d 1156, 1161 (9th Cir. 2009)
- Vess v. Ciba-Geigy Corp. USA, 317 F.3d 1097, 1103-04 (9th Cir. 2003)
- Desaigoudar v. Meyercord, 223 F.3d 1020, 1022 n.5 (9th Cir. 2000)
- Original Sixteen to One Mine, Inc. v. Quartzview, Inc., No. 2:23-CV-00376-TLN-DB, 2024 WL 1344596, at *6 (E.D. Cal. Mar. 29, 2024)
- Blessing v. Plex Systems, Inc., No. 21-CV-05951-PJH, 2021 WL 6064006, at *5 (N.D. Cal. Dec. 22, 2021)
- Brown v. Brewer, No. CV06-3731-GHK SHX, 2010 WL 2472182, at *24 (C.D. Cal. June 17, 2010)
- Wilson v. Great American Industries, 855 F.2d 987, 995 (2d Cir. 1988)
- New York City Employees' Retirement System v. Jobs, 593 F.3d 1018, 1022 (9th Cir. 2010)
- Tracinda Corp. v. DaimlerChrysler AG, 502 F.3d 212, 228 (3d Cir. 2007)
- Campbell v. Transgenomic, Inc., 916 F.3d 1121, 1125 (8th Cir. 2019)
- Vargas v. Citrix Systems, Inc., No. 22-CV-62327-RAR, 2024 WL 413454, at *8-9 (S.D. Fla. Feb. 3, 2024)
- In re MannKind Securities Actions, 835 F. Supp. 2d 797, 817 (C.D. Cal. 2011)
- In re Textainer Partnership Securities Litigation, No. C-05-0969 MMC, 2005 WL 3801596, at *6-8 (N.D. Cal. Dec. 12, 2005)
- Sanchez v. IXYS Corp., No. 17-cv-06441-WHO, 2018 WL 4787070, at *3-4 (N.D. Cal. Oct. 2, 2018)
- Miller v. Thane International, Inc., 519 F.3d 879, 881-82, 887 (9th Cir. 2008)
- Sohovich v. Avalara, Inc., No. 24-1646, 2025 WL 957895, at *2-3 (9th Cir. Mar. 31, 2025)
- Sohovich v. Avalara, Inc., No. C22-1580 MJP, 2024 WL 895377, at *10 (W.D. Wash. Mar. 1, 2024)
- In re Convergent Technologies Securities Litigation, 948 F.2d 507, 513 (9th Cir. 1991)
- No. 84 Employer-Teamster Joint Council Pension Trust Fund v. American West Holding Corp., 320 F.3d 920, 936 (9th Cir. 2003)
- Intuitive Surgical, Inc. v. Hynes, 759 F.3d 1059
- In re Cutera Securities Litigation, 610 F.3d 1103, 1111 (9th Cir. 2010)
- Quality Systems, Inc. Securities Litigation, 865 F.3d 1138, 1142, 1144
- In re Rigel Pharmaceuticals, Inc. Securities Litigation, 697 F.3d 869, 886 (9th Cir. 2012)
- Golub v. Gigamon Inc., 372 F. Supp. 3d 1033, 1052 (N.D. Cal. 2019)