

United States District Court
Northern District of California

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

In re FINISAR CORPORATION
SECURITIES LITIGATION

Case No. [5:11-cv-01252-EJD](#)

**ORDER DENYING MOTION FOR
CLASS CERTIFICATION**

Re: Dkt. No. 131

Lead Plaintiff, the Oklahoma Firefighters Pension & Retirement System (“Plaintiff”), brings this putative securities fraud class action against Defendants Finisar Corporation (“Finisar”), Eitan Gertel, and Jerry S. Rawls (collectively, “Defendants”), alleging that Defendants issued a single false or misleading statement on December 2, 2010, denying an inventory build-up of Finisar’s key telecom products by the Company’s customers. Presently before the Court is Plaintiff’s motion for class certification. The Court finds it appropriate to take the motion under submission for decision without oral argument pursuant to Civil Local Rule 7-1(b). Having considered the parties’ papers and for the reasons explained below, Plaintiff’s motion for class certification is denied.

I. BACKGROUND

Plaintiff brings this action on behalf of itself and a class of all persons and entities who purchased or otherwise acquired the common stock of Finisar between December 2, 2010 and March 8, 2011 (the “Class Period”). SAC ¶ 1. Finisar is a technology company that “develops and sells fiber optic subsystems and components that enable high-speed voice, video and data communications for telecommunications, networking, storage, wireless and cable television

1 applications.” Id. ¶ 2. Gertel served as Chief Executive Officer (“CEO”) and a director of Finisar
2 from August 2008 to September 2015. Id. ¶ 23. Plaintiff alleges that during the Class Period,
3 Gertel made over \$5.17 million by selling 201,913 shares of his Finisar stock at artificially inflated
4 prices. Id. ¶¶ 23, 74-75. Rawls has served as Chairman of the Board of Finisar since 2006 and
5 was appointed CEO in September 2015. Id. ¶ 24.

6 Prior to the Class Period, Finisar experienced six consecutive fiscal quarters of revenue
7 growth, which Plaintiff alleges was driven primarily by sales of its wavelength selective switches
8 (“WSS”) and reconfigurable optical add/drop multiplexers (“ROADM”) linecard telecom
9 products. Id. ¶¶ 30-33. Plaintiff alleges that during this phase of growth but prior to the Class
10 Period, analysts in the industry “suspected that this growth was driven by customers building-up
11 inventory rather than purchasing Finisar products for immediate use in production.” Id. ¶ 3.
12 Plaintiff contends that Finisar did not affirm nor deny the inventory build-up suspicions during
13 this time, and as a result, “Finisar’s stock price remained relatively consistent over the course of
14 the six-quarters of record-growth.” Id. ¶ 36.

15 Plaintiff alleges that on December 2, 2010, Finisar’s then-CEO, Gertel, “participated in the
16 Credit Suisse Technology Conference call with analysts, media representatives, and investors.”
17 Id. ¶ 62. During this call, an analyst from Credit Suisse named William Stein allegedly
18 highlighted that Finisar had “significantly outgrown [its] end markets for the last six quarters” and
19 raised the fear that the company’s growth “is going to revert.” Id. Mr. Stein then asked, “Can you
20 help us understand how it’s possible for the company to not only sustain that [growth] but
21 continue to grow faster than the end markets?” Id. In response, Gertel allegedly provided the
22 following explanation:

23 So if you look at the market, you see the fundamentals for growth
24 are there. People need more higher bit rate products, more
25 sophisticated products to address the cost reduction that the network
needs and the demand continues.

26 As far as we know we haven’t seen any inventory issues with our
27 product with our customers. Our product—our business is 60/40,
basically 40% is LAN/SAN business, 60% is telecom. On the
28 LAN/SAN side, by far the majority of our sales is a vendor-

1 managed inventory. So we have visibility to what people have.
 2 There is no reason for them to have inventory because we own the
 inventory. So we're pretty safe with that.

3 And on the telecom side, look, there can be one or two guys who try
 4 to build their own inventory, but by far the majority of the customers
 expediting products and doesn't look to us, not visible to us at all, all
 these quarters if they are building any inventory.

5 Id.

6 The same day Gertel made this statement, Finisar's common stock increased \$3.29 per
 7 share (or 16.64%), going from \$19.77 per share on December 1, 2010, to close at \$23.06 per share
 8 on December 2, 2010. Id. ¶¶ 13, 63. The following day, on December 3, 2010, the price per share
 9 increased another \$0.95 (or 4.12%). Id. ¶ 63. Plaintiff alleges that Finisar's stock price continued
 10 to rise in this manner throughout the Class Period, reaching a Class Period high of \$43.23 per
 11 share on February 14, 2011. Id. ¶¶ 63, ¶ 77.

12 But on March 8, 2011, Finisar issued a press release indicating that its fourth quarter
 13 revenues would be lower than projected due in part to "the previously undisclosed inventory
 14 build-up at some of the Company's telecom customers and a slowdown in business in China."
 15 Id. ¶ 78. The press release read, in relevant part:

16 During the fourth quarter ending April 30, 2011, the Company will
 17 be impacted by the full three months of the annual price negotiations
 18 with telecom customers that typically take effect on January 1, the
 10-day long shutdown at certain customers for Chinese New Year in
 19 February, the adjustment of inventory levels at some telecom
 20 customers, particularly for products which had previously been on
 allocation and long lead times, including WSS and ROADM line
 21 cards, and a slowdown in business in China overall. Primarily as a
 result of these factors, the Company indicated that it currently
 expects revenues for the fourth quarter to be in the range of \$235 to
 \$250 million.

22 Id. ¶ 53, 79. The press release was issued after the market closed on March 8, 2011. Id. Rawls
 23 also held a conference call the same day to discuss the expected results, and explained the
 24 inventory adjustment in this way:

25 [M]any, many of the people that follow our company have
 26 speculated for several quarters about double ordering inventory
 27 builds on the part of our customers and we continually responded
 that we asked our customers and they say, "No. We're buying for
 production and we're not buying for inventory." Well we have

1 clearly learned here in the last month or so from several of them that
 2 all of a sudden surprise, surprise they have some pretty good size
 3 inventories of wavelength selective switches. And the question is
 4 we don't really have great visibility into their inventory levels other
 5 than what they tell us and I, you know, they're not—we're not
 6 getting complete information I don't think.

7 Id. ¶ 54

8 In reaction to the March 8 press release, Finisar's stock price dropped by \$15.43 per share,
 9 falling from \$40.04 per share on March 8, 2011 to close at \$24.61 on March 9, 2011, "marking a
 10 one-day decline of nearly 39%." Id. ¶¶ 6, 68, 81. Plaintiff asserts that Finisar's stock price has
 11 never fully recovered from this decline. Id.

12 Plaintiff contends that Gertel's December 2nd statement misled investors as to the nature
 13 of Finisar's growth by denying that its revenue increase was the result of a short-term,
 14 unsustainable inventory build-up by customers rather than the result of increased demand for
 15 Finisar products. Plaintiff claims that the statement misrepresented Finisar's growth as being "in
 16 line with" and "not outpacing" the end-market growth, and incorrectly suggested that its "growth
 17 would not revert due to an inventory correction after an inventory build-up by customers." Id. ¶
 18 64.

19 Plaintiff alleges that both before and during the Class Period, Finisar would have
 20 "necessarily learned about customer inventory and demand during its annual demand and pricing
 21 negotiations with customers." Opp. at 5 (citing SAC ¶¶ 5, 45-50). According to Plaintiff, these
 22 negotiations occurred over the course of a three-month period that "concluded before the end of
 23 2010," the results of which were implemented by January 1, 2011. SAC ¶¶ 7, 45, 53, 79. Plaintiff
 24 further alleges that an investigation conducted by Lead Counsel, with the assistance of a private
 25 investigative firm located in China, "affirm[ed] that inventory levels and the economic slow-down
 26 in China were discussed during negotiations with Finisar in 2010." Id. ¶ 46. Indeed, the SAC
 27 identifies confidential witnesses who, according to Plaintiff, were "personally involved in making
 28 purchases from Finisar" and confirmed that current volumes and the next year's projected demand
 volumes were discussed during annual negotiations at that time. Id. ¶¶ 49-51. From this Plaintiff
 concludes that Defendants either knew, or were reckless in not knowing, that an inventory build-

1 up existed, and that Finisar’s growth would decline in the upcoming quarters as customers became
 2 less concerned about supply constraints and needed to “burn-off existing excess inventory.” *Id.*

3 Finally, Plaintiff contends that Defendants’ knowledge of the inventory build-up is further
 4 supported by their behavior during the Class Period. Specifically, Plaintiff asserts that Defendants
 5 capitalized on the rapidly rising stock price by conducting a substantial stock offering that
 6 garnered over \$118 million in gross proceeds. *Id.* ¶ 72. Additionally, Gertel himself “sold
 7 201,913 shares of his personally held or controlled Finisar stock for gross proceeds of over \$5.17
 8 million,” which Plaintiff claims was “substantially more than in any previous year.” *Id.* ¶¶ 73-75

9 II. STANDARDS

10 Rule 23 of the Federal Rules of Civil Procedure governs class certification. Parties
 11 seeking class certification bears the burden of affirmatively demonstrating that they have satisfied
 12 each of the four requirements of Rule 23(a) and at least one of the requirements of Rule 23(b).
 13 Wal-Mart Stores, Inc. v. Dukes, 564 U.S. 338, 350 (2011); Zinser v. Accufix Research Inst., Inc.,
 14 253 F.3d 1180, 1186 (9th Cir. 2001), opinion amended on denial of reh'g, 273 F.3d 1266 (9th Cir.
 15 2001). Rule 23(a) provides that a class may only be certified if “(1) the class is so numerous that
 16 joinder of all members is impracticable; (2) there are questions of law or fact common to the class;
 17 (3) the claims or defenses of the representative parties are typical of the claims or defenses of the
 18 class; and (4) the representative parties will fairly and adequately protect the interests of the class.”
 19 Fed. R. Civ. P. 23(a). In other words, the class must satisfy the requirements of numerosity,
 20 commonality, typicality, and adequacy to maintain a class action. Mazza v. Am. Honda Motor
 21 Co., Inc., 666 F.3d 581, 588 (9th Cir. 2012).

22 In addition, a party seeking class certification must also “satisfy through evidentiary proof”
 23 at least one of the three requirements of Rule 23(b). Comcast Corp. v. Behrend, 569 U.S. 27, 33
 24 (2013); Dukes, 564 U.S. at 350. Where a plaintiff seeks certification under Rule 23(b)(3)’s
 25 predominance approach, the plaintiff must establish “that the questions of law or fact common to
 26 class members predominate over any questions affecting only individual members, and that a class
 27

1 action is superior to other available methods for fairly and efficiently adjudicating the
2 controversy.” [Fed. R. Civ. P. 23\(b\)\(3\)](#).

3 A trial court has broad discretion in making the decision to grant or deny a motion for class
4 certification. [Bateman v. American Multi-Cinema, Inc.](#), 623 F.3d 708, 712 (9th Cir. 2010). In
5 making this determination, the court's analysis “must be ‘rigorous’ and may ‘entail some overlap
6 with the merits of the plaintiff's underlying claim.’” [Amgen Inc. v. Connecticut Retirement Plans
7 and Trust Funds](#), 568 U.S. 455, 466 (2013) (quoting [Dukes](#), 564 U.S. at 349); see also [Mazza](#), 666
8 F.3d at 588. However, “Rule 23 grants courts no license to engage in free-ranging merits inquiries
9 at the certification stage.” [Amgen](#), 568 U.S. at 466; [Ellis v. Costco Wholesale Corp.](#), 657 F.3d
10 970, 983 (9th Cir. 2011). Thus, “[m]erits questions may be considered to the extent—but only to
11 the extent—that they are relevant to determining whether the Rule 23 prerequisites for class
12 certification are satisfied.” [Amgen](#), 568 U.S. at 466. The court must resolve factual disputes as
13 “necessary to determine whether there was a common pattern and practice that could affect the
14 class *as a whole*.” [Id.](#) (emphasis in original). “When resolving such factual disputes in the
15 context of a motion for class certification, district courts must consider ‘the persuasiveness of the
16 evidence presented.’” [Hatamian v. Advanced Micro Devices, Inc.](#), No. 14-226 YGR, 2016 WL
17 1042502, at *3 (N.D. Cal. Mar. 16, 2016) (quoting [Ellis](#), 657 F.3d at 982). Where a court
18 concludes as a result of its analysis that the moving party has met its burden of proof, then the
19 court may certify the class. [Zinser](#), 253 F.3d at 1186.

20 III. DISCUSSION

21 A. Rule 23(a) Requirements

22 Plaintiff seeks certification of a class of all persons and entities who purchased or acquired
23 the public traded common stock of Finisar during the period from December 2, 2010 through
24 March 8, 2011, inclusive, and were damaged thereby.¹ With respect to the requirements for class
25

26 ¹ Excluded from the Class are (i) Defendants Finisar, Gertel and Rawls, (ii) the officers and
27 directors of Finisar at all relevant times, (iii) members of Defendants’ immediate families and their
28 legal representatives, heirs, successors, or assigns; and (iv) any entity in which Defendants have or
had a controlling interest.

1 certification set forth in Rule 23(a), Fed.R.Civ.P., Plaintiff first asserts that the numerosity
2 requirement is satisfied because the Class consists of thousands of similarly situated investors who
3 purchased Finisar common stock at artificially inflated prices during the Class Period. Second,
4 Plaintiff contends that numerous legal and factual questions are common to all Class members.
5 Third, Plaintiff asserts that its claims are typical of the proposed Class. Fourth, Plaintiff represents
6 that it is a sophisticated institutional investor with a significant financial interest in the case and
7 has been committed to overseeing and managing the litigation fairly and adequately to protect the
8 interests of the Class. Defendants do not dispute Plaintiff's showing with respect to the four
9 requirements set forth in Rule 23(a).

10 After careful examination of the record, the Court finds that Plaintiff's proposed Class
11 satisfies the numerosity, commonality, typicality, and adequacy requirements to maintain a class
12 action under Rule 23(a).

13 B. Rule 23(b) Requirements

14 Plaintiff also asserts that the action satisfies Rule 23(b)(3), Fed.R.Civ.P. According to
15 Plaintiff, Defendants' alleged misstatements perpetuated a "fraud on the market," and therefore
16 questions regarding whether misleading conduct occurred, whether that conduct occurred with the
17 requisite scienter, and whether that conduct caused investors to suffer losses predominate over
18 individual questions. Further, Plaintiff asserts that it is entitled to the presumption of class-wide
19 reliance under the fraud-on-the-market doctrine. Finally, Plaintiff asserts that a class action is
20 superior to a multitude of individual actions.

21 Defendants raise two arguments in opposition. First, Defendants contend that the proposed
22 Class is overbroad to the extent it includes persons who traded millions of shares on the morning
23 of December 2nd before Gertel spoke during the Credit Suisse Technology Conference call at
24 approximately 18:08:38 GMT (1:08:38 p.m. Eastern Time). Second, Defendants seek to rebut the
25 presumption of reliance by showing that Gertel's alleged misrepresentations had no impact on
26 Finisar stock price. Because the Court finds Defendants' second argument persuasive for the
27 reasons set forth below, the Court finds it unnecessary to consider the first argument regarding the

1 breadth of the proposed Class.

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3 Predominance Requirement

4 Rule 23(b)(3) requires in pertinent part that “the questions of law or fact common to class
5 members predominate over any questions affecting only individual members.” Fed.R.Civ.P.
6 23(b)(3). Here, the parties dispute whether the element of reliance raises questions of law or fact
7 common to the class. Plaintiff contends that class-wide issues predominate over individualized
8 issues on the element of reliance because class members are entitled to a presumption of reliance
9 based upon the fraud-on-the-market theory.

10 The fraud-on-the-market theory “facilitates class certification by recognizing a rebuttable
11 presumption of class wide reliance on public, material misrepresentations when shares are traded
12 in an efficient market.” Amgen, 568 U.S. at 463. “Absent the fraud-on-the market theory, the
13 requirement that Rule 10b-5 plaintiffs establish reliance would ordinarily preclude certification of
14 a class action seeking money damages because individual reliance issues would overwhelm
15 questions common to the class.” Id. at 462-463. To invoke the presumption of reliance based
16 upon the fraud-on-the-market theory, a plaintiff seeking class certification must show: (1) the
17 alleged misrepresentations were publicly known; (2) they were material; (3) the stock traded in an
18 efficient market; and (4) the plaintiff traded stock between the time the misrepresentations were
19 made and when the truth was revealed. Halliburton Co v. Erica P. John Fund, Inc., 134 S.Ct. 2398
20 (2014) (“Halliburton II”) (citing Basic v. Levinson, 485 U.S. 224, 248, n.27 (1988)). The first
21 three requirements “are directed at price impact – ‘whether the alleged misrepresentations affected
22 the market price in the first place.’” Halliburton II, 134 S.Ct. at 2414. “In the absence of price
23 impact, Basic’s fraud-on-the-market theory and presumption of reliance collapse.” Id.

24 Here, Plaintiff has made a sufficient showing to invoke the fraud-on-the-market
25 presumption of reliance. Plaintiff’s expert, Michael L. Hartzmark, Ph.D. (“Hartzmark”), opines
26 that the Finisar stock traded on an open, well-developed, and efficient market. Defendants do not
27 dispute the sufficiency of Plaintiff’s showing. Rather, Defendants seek to rebut the presumption

1 of reliance based on evidence that Gertel's alleged misstatement had no impact on Finisar's stock
2 price.

3 "Because the presumption's efficient market analysis is only an 'indirect proxy for price
4 impact,' it must give way to direct 'evidence showing that the alleged misrepresentation did not
5 actually affect the stock's market price. . . .'" [Hatamian](#), 2016 WL 1042502, at *6 (N.D. Cal.
6 [March 16, 2016](#)) (quoting [Halliburton II](#), 134 S.Ct. at 2415-16). "If [d]efendants show that the
7 alleged misrepresentation did not affect the stock's price, then the Basic presumption will not
8 apply." *Id.* (citing [Halliburton II](#), 134 S.Ct. at 2416); *see also* [Basic Inc. v. Levinson](#), 485 U.S. at
9 248 ("Any showing that severs the link between the alleged misrepresentation and either the price
10 received (or paid) by the plaintiff, or his decision to trade at a fair market price, will be sufficient
11 to rebut the presumption of reliance."). Defendants bear the burden of production and the burden
12 of persuasion on the issue of price impact. *See* [Erica P. John Fund, Inc. v. Halliburton Co.](#), 309
13 F.R.D. 251, 260 (N.D. Tex. 2015) ("[Halliburton Tex.](#)"); *see also* [Waggoner v. Barclays PLC](#), No.
14 16-1912, 2017 WL 5077355, at *37 (2nd Cir. Nov. 6, 2017).

15 Defendants contend that Gertel's December 2nd statement did not cause the \$3.29 increase
16 in stock price from \$19.77 at the close of trading on December 1st to \$23.06 at the close of trading
17 on December 2nd. Defendants' argument is supported by the event study conducted by their
18 expert, Dr. Alexander Aganin ("Aganin"). Aganin's report shows that after the market closed on
19 December 1st, Finisar issued a press release announcing its final unaudited results for its Second
20 Quarter of Fiscal Year 2011 and its forecast for its Third Quarter of Fiscal Year 2011. Finisar
21 management also held a conference call. According to Aganin, Finisar's stock price increased
22 after the aftermarket dissemination of the unchallenged² December 1st statement to open on
23 December 2nd at \$21.12 per share, which was \$1.35 above the \$19.77 closing price on December
24 1st. Thereafter, Finisar's stock price continued increasing during the morning trading hours to
25

26 ² Neither the December 1st press release nor the conference call are alleged to contain false or
27 misleading statements. Plaintiff's initial complaint, however, alleged that Finisar made false and
28 misleading statements in the December 1st press release and conference call. Consolidated
Complaint (filed Jan. 20, 2012).

1 reach \$22.81 per share before Gertel made any public statements on December 2nd.

2 In conducting his study, Aganin assumes that if Gertel's statements had an impact on
3 Finisar's stock price as alleged by Plaintiff, "one would expect this impact to be discernible in
4 Finisar's stock price by the time of 4:00 PM EST, market close on December 2, 2010
5 (approximately 3 trading hours after the statements were made)." Expert Report of Alexander
6 Aganin, Ph.D., attached as Exhibit 1 to Decl. of David Priebe (Dkt. 136-2), p. 11. According to
7 Aganin's calculation, Finisar's stock price increased 1.14% between the time Gertel made his
8 public statements and the close of trading on December 2nd. During that same time frame, the
9 SPDR S&P 500 ("SPY") increased 0.13% and the industry index³ increased 1.07%. Aganin
10 opines that Finisar's residual return was 0.65% and was not statistically significant.

11 Aganin also evaluates whether there was any evidence of price impact by the end of the
12 next trading day, December 3, 2010, when Finisar stock price closed at \$24.01. Id. According to
13 Aganin's calculation, Finisar's stock price increased 5.39% between the time Gertel made his
14 public statements and the close of trading on December 3, 2010. During that same time frame, the
15 SPY increased 0.38% and the industry index increased 5.84%. Aganin opines that Finisar's
16 residual return was -0.25% and was not statistically significant. In summary, based upon the event
17 study, Aganin opines that any increase in stock price after Gertel made his public statements,
18 whether compared to the closing price on December 2nd or December 3rd, 2010, was not
19 statistically significant when the price is adjusted for general market and industry trading.

20 Plaintiff's expert, Hartzmark, does not provide any evidence about the stock price at the
21 time Gertel made the challenged statements, and his event study does not segregate the effect of
22 the December 1st information that was in the market on December 2nd before Gertel's statements
23 from the effect, if any, of Gertel's statements.⁴ Instead, Plaintiff argues that Aganin's study is

24 _____
25 ³ Aganin's industry index was an equal-weighted index of stock returns of four of Finisar's
26 competitors: JDS Uniphase Corp., Oplink Communications, Inc., Oclaro, Inc. and Opnext, Inc.

27 ⁴ In his rebuttal report, Hartzmark offers a new analysis in an attempt to show a statistically
28 significant stock price change after Gertel's December 2nd statement. The Court rejects
Hartzmark's analysis because he does not test for statistically significant stock price changes
during the December 2nd trading day.

1 flawed for various reasons. First, Plaintiff contends that Aganin failed to conduct a complete,
2 affirmative price impact analysis, and therefore Aganin's conclusions are incorrect. As explained
3 in Hartzmark's rebuttal report, to conduct an affirmative economic price impact analysis, an expert
4 assumes that a misstatement represents new information entering the market, and then uses a
5 statistical analysis "in combination with the analysis of news reports, analyst evaluations and firm
6 specific financial information" to isolate the impact of the misstatements relative to other
7 disclosures that are contemporaneously revealed." Rebuttal Report of Michael L. Hartzmark,
8 Ph.D., attached as Exhibit B to the Supp. Decl. of Ian D. Berg (Dkt. 141). Hartzmark's rebuttal
9 report tracks the continuing rise of Finisar's stock from December 2nd to March 8, 2011, the date
10 Finisar allegedly issued a corrective statement, in combination with analyst reports issued on
11 December 13 and 15, 2010, January 6, 2011, and February 4, 2011. Hartzmark reasons that after
12 Gertel's statements on December 2nd, analysts and investors evaluated the prospects of Finisar
13 through a more optimistic lens. According to Hartzmark, the increase in Finisar's stock price from
14 December 2nd until the corrective disclosure on March 8, 2011 is consistent with his conclusion
15 that there is a price impact.

16 The Court rejects the notion that the analyst reports show a delayed price impact of the
17 December 2nd statement. "An efficient market is said to digest or impound news into the stock
18 price in a matter of minutes." Halliburton Tex., 309 F.R.D. at 269. The analyst reports relied
19 upon by Hartzmark were issued weeks and months after Gertel's December 2nd statements and do
20 not refer to Gertel's December 2nd statements. Furthermore, Defendants cannot be held liable for
21 any affect the analyst reports may have had on the price of Finisar stock in the absence of evidence
22 that Defendants exercised control over the content of those analyst reports. See Janus Capital
23 Group, Inc. v. First Derivative Traders, 564 U.S. 135, 144 (2011).

24 Second, Plaintiff contends that Aganin's report is flawed insofar as it fails to consider
25 Finisar's stock price change following the allegedly corrective disclosure of March 8, 2011.
26 According to Plaintiff, Finisar's stock price fell from \$40.04 per share on March 8, 2011 to close
27 at \$24.61 on March 9, 2011. Plaintiff is correct that for purposes of price impact analysis, courts

1 have focused on the corrective disclosure date in certain cases. See e.g. Halliburton Tex., 309
2 F.R.D. at 262 (“Measuring price change at the time of the corrective disclosure, rather than at the
3 time of the corresponding misrepresentation, allows for the fact that many alleged
4 misrepresentations conceal a truth.”); Hatamian v. Advanced Micro Devices, Inc., 2016 WL
5 1042502, at *7 (“Price impact in a securities fraud case is not measured solely by price increase on
6 the date of a misstatement; it can be quantified by decline in price when the truth is revealed.”); In
7 re Intuitive Surgical Sec. Litig., 2016 WL7425926, *13 (N.D. Cal. Dec. 22, 2016) (“In conducting
8 this analysis, the court will focus on changes in the stock price with respect to the corrective
9 disclosure dates, as opposed to the misrepresentations alleged, because this method more
10 accurately captures the impact, if any, of a material misrepresentation or omission.”). Neither the
11 Supreme Court nor the Ninth Circuit, however, has addressed the relative importance of the date
12 of the alleged misstatement as compared to the date of the corrective statement in analyzing price
13 impact and the issue is open to debate. The absence of controlling caselaw on this specific issue
14 allows Defendants to make “[a]ny showing that severs the link between the alleged
15 misrepresentation and either the price received (or paid) by the plaintiff, or his decision to trade at
16 a fair market price, [which] will be sufficient to rebut the presumption of reliance.” Basic Inc. v.
17 Levinson, 485 U.S. at 248. The Court accordingly finds no flaw in Aganin’s analysis simply
18 because it focuses on the date of the alleged misstatement rather than the date of the alleged
19 corrective disclosure. Furthermore, Aganin’s analysis focusing on the date of alleged
20 misstatement is supported by a relatively recent decision by the Eighth Circuit. See IBEW Local
21 98 Pension Fund v. Best Buy Co., 818 F.3d 775 (8th Cir. 2016) (overwhelming evidence of no
22 “front-end” price impact at the time of the alleged misstatement rebutted the Basic presumption).

23 Whether Aganin’s showing is sufficient to sever the link between the alleged
24 misrepresentation and the price received or paid by Plaintiff is a separate issue. Plaintiff contends
25 that courts have inferred price impact from an alleged corrective disclosure even where, as in the
26 present case, an alleged misstatement arguably has no price impact. See e.g. Hatamian, 2016 WL
27 1042502, *7. One stated rationale for focusing on the date of the corrective disclosure rather than

1 the date of the alleged misstatement or omission is that “misstatements are not made in a vacuum
2 and other information can offset or confound the effects of a particular misrepresentation.” Id.
3 There is, however, no evidence in the present case of any information in the market that may have
4 offset or confounded the effects of Gertel’s alleged misrepresentations. To the contrary, there is
5 evidence that other information in the market before Gertel spoke, namely the December 1 press
6 release and conference call, contributed to a price increase. Another stated rationale for focusing
7 on the corrective disclosure date is that “a misstatement could serve to maintain the stock price at
8 an artificially inflated level.” Id. Plaintiff in this case is not proceeding on a price maintenance
9 theory, however.

10 Notably, the Hatamian case is also factually distinguishable from the present case. In
11 Hatamian, defendants’ own expert acknowledged that defendant’s stock price experienced
12 statistically significant price increases on four days on which defendants had allegedly made 43
13 (of the 125) misstatements and/or omissions, and defendants’ stock price experienced a
14 statistically significant price decrease on every one of the five days defendants allegedly made
15 corrective disclosures. In contrast, Aganin’s analysis shows no statistically significant price
16 increase following Gertel’s December 2nd statements. Because the December 2nd statements had
17 no price impact, it cannot be presumed that the March 8 disclosures revealed a latent price impact
18 of Gertel’s statements. Furthermore, after Gertel’s statements and before the alleged corrective
19 March 8th disclosure, several analyst reports were issued. These reports constitute new
20 information that “severs the link” between Gertel’s December 2nd statements and any increase in
21 Finisar’s stock.

22 Third, Plaintiff argues that Aganin’s methodology contained three critical errors resulting
23 in a flawed empirical analysis: (1) a flawed regression specification; (2) improper selection of two
24 discrete points in time (“time frame”) to evaluate price movement and statistical significance; and
25 (3) an econometric error resulting from a biased “industry” index that lacks independence from
26 Finisar’s return and is influenced by Finisar-specific news. See Hartzmark Rebuttal Report, ¶¶10,
27 15-43. When these purported errors are corrected, Plaintiff contends that the evidence shows a
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1 price increase following Gertel's statements that was statistically significant.

2 With respect to the regression specification, Plaintiff contends that the Aganin Report is
3 unreliable because Aganin erred in failing to use dummy variables to exclude seven dates when
4 Finisar announced preliminary and actual earnings, an acquisition, and Finisar's secondary
5 offering. Aganin clarifies in his Rebuttal Report that he ran his regression with and without
6 dummy variables and the results did not change. Aganin Rebuttal Report, ¶50. Furthermore,
7 Aganin reran his event study excluding the seven dates. The results confirm Aganin's opinion that
8 Gertel's statements on December 2nd did not result in statistically significant increase of Finisar's
9 stock price on December 2 or 3, 2010. Aganin Rebuttal Report, ¶¶56-57. The Court is persuaded
10 by Aganin's rebuttal on these points.

11 Plaintiff's criticism of the time frame used in Aganin's analysis is also unpersuasive. "An
12 efficient market is said to digest or impound news into the stock price in a matter of minutes."
13 Halliburton Tex., 309 F.R.D. at 269. Further, the time frame selected by Aganin is supported by
14 an academic study by James Patell and Mark Wolfson, "The Intraday Speed of Adjustment of
15 Stock Prices to Earnings and Dividend Announcements," Journal of Financial Economics 13, no.
16 2 (June 1984).

17 Finally, with respect to the industry indices, Aganin used two indices: the SPY and an
18 index of four competitors of Finisar. Hartzmark does not object to the use of the SPY nor to the
19 use of industry indices in general. According to Hartzmark, however, Aganin's index of four
20 competitors was too narrow to fully account for industry-wide effects. Hartzmark contends that
21 Aganin should have included a larger group of companies in the telecom industry, including
22 customers and suppliers. Hartzmark opines that an appropriate index would be iShares U.S.
23 Telecommunication ETF. Hartzmark Rebuttal Report, ¶48, n.62.

24 In his rebuttal report, Aganin explains that Hartzmark's use of a broader index is
25 methodologically unsound because good news for a major Finisar customer may be good news or
26 bad news for Finisar and its peers. Aganin Rebuttal Report, ¶36. Aganin also states that an
27 overbroad industry index fails to isolate the effect of issuer-specific information from information

United States District Court
Northern District of California

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about the industry or market. Id., ¶¶36-37, 41-46. In any event, Aganin reran his event study using returns of both his index and the iShares U.S. Telecommunication ETF. The results show that none of the returns for the event windows ending on December 2, 2010 are statistically significant. Id., ¶38. Aganin concludes that the sensitivity analysis confirms that Gertel’s challenged statements did not result in a statistically significant increase of Finisar’s stock price on December 2 or 3, 2010. Id., ¶¶38-39. The Court finds Aganin’s conclusion persuasive.

IV. ORDER

Defendants have rebutted the Basic presumption of fraud-on-the-market reliance by demonstrating through a preponderance of evidence that Gertel’s December 2nd statement had no price impact when made or thereafter. It follows that the predominance requirement for class certification has not been met. Accordingly, Plaintiff’s motion for class certification is DENIED.

The hearing scheduled for December 7, 2017, is VACATED.

IT IS SO ORDERED.

Dated: December 5, 2017



EDWARD J. DAVILA
United States District Judge