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U.S. Supreme Court Rejects Statistical Significance as Requirement to Plead Materiality

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Matrixx Initiatives, Inc. v. Siracusano (.pdf) was a securities fraud class action where claimants alleged that Matrixx failed to disclose reports of a potential link between its cold medicine, Zicam, and loss of smell. The district court dismissed the claim because the reports lacked statistical significance and, therefore, could not have formed a “material” omission under the Securities Exchange Act. The Ninth Circuit reversed the dismissal.

In a unanimous opinion, authored by Justice Sotomayor, the Supreme Court held that the district erred in employing a statistical significance requirement. Instead, the court should have considered the “total mix” of information available to investors. No single bright-line test of materiality is controlling, and the allegation taken as a whole permitted the inference that the adverse reports could have affected a reasonable investor.

Although the opinion does not concern the admissibility of expert testimony, the Court’s discussion of the reliability of a causation inference in the absence of statistically significant findings will doubtless be cited in future *Daubert* battles.

Also of general interest is the Court’s explanation of how the facts pleaded met the *Twombly* plausibility requirements. Indeed, the case may serve as a template for pleading fraud by omission.