

[Securities Regulation Daily Wrap Up, INITIAL PUBLIC OFFERINGS— 9th Cir.: District court used wrong standard in rejecting Robinhood IPO suit, \(Sept. 3, 2025\)](#)

Securities Regulation Daily Wrap Up

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By [Rodney F. Tonkovic, J.D.](#)

The district court will have to reconsider whether Robinhood had a duty to disclose its lagging interim results.

A split Ninth Circuit panel has sent an IPO-related suit against Robinhood Markets, Inc. back to the district court to re-evaluate the legal standard for its Section 11 claims. The plaintiffs said that Robinhood failed to disclose declining financial trends shortly before its July 2021 IPO. The panel held that the district court applied the wrong legal standards in finding that Robinhood was not required to disclose omitted information about interim results. Expressing no view on the claims, the panel vacated that portion of the district court's opinion and remanded (*Sodha v. Golubowski*, No. 24-1036 (9th Cir. Aug. 29, 2025)).

Robinhood is an online broker that matches retail investors with market makers. In early 2021, Robinhood increasingly focused on trades in "meme stocks" and Dogecoin. In early February 2021, the prices of GameStop and other meme stocks fell, and, similarly, Dogecoin's price skyrocketed only to plummet after late April. Robinhood's revenue from equity and options trading and from cryptocurrency also declined during the second quarter of 2021, as did other key performance indicators.

IPO. In July 2021, Robinhood conducted an IPO. The offering documents focused on Robinhood's performance in late 2020 and during the first quarter of 2021, a period of substantial growth. There were no final results for the second quarter of 2021 or the beginning of the third quarter, but Robinhood suggested that its expectations were in line with the previous quarters while warning that its rapid growth could slow.

Robinhood reported its financial results for the third quarter of 2021 in October 2021. The results showed declines from the second quarter, and Robinhood anticipated that fourth-quarter revenue was likely to be lower. Following these reports, plus other disruptions in the form of a cyberattack, Robinhood's stock price dropped.

District court. The lawsuit, filed as a putative class action, alleged that eight Robinhood executives and directors and 17 underwriters were liable for false and misleading statements about Robinhood's revenues that appeared in the company's registration statements and prospectus ahead of its IPO. The plaintiffs' case largely hinged on the allegation that Robinhood's interim results, which were not reported, lagged behind its last reported results. The [district court](#) dismissed the complaint with prejudice, finding that Robinhood was not liable under the Securities Act for failing to disclose pre-IPO declines in key performance indicators and revenue. The court said that the declines cited by the complaint were essentially "fluctuations" leading back to normal levels.

Wrong standard. The panel concluded that the district court applied the wrong standards in evaluating the plaintiffs' legal theories under Section 11 of the Securities Act and Item 303 of Regulation S-K. Section 11 (and 12), the panel said, creates a duty to disclose all material information in cases like this one, where the omissions involve the relationship between a prior statement about a particular time period and an event subsequent to that period, that is, events that took place during the partially completed fiscal quarter before the IPO. Robinhood was required to disclose this material interim information, the panel said, adding that the proper test for the duty to disclose was the test for materiality, not the "extreme departure" test erroneously used by the district court.

The panel then held that Item 303 of Regulation S-K requires disclosure, quantified to the extent reasonably practicable, of known trends that are reasonably likely to cause a material change in a company's financial condition or results. The district court's analysis here was erroneous because it limited the disclosure obligations to "persistent conditions." The panel declined to set a bright-line rule for a "trend," stating that it was persuaded

by other courts' use of a fact-specific inquiry. The panel noted further that the district court did not consider whether Robinhood's declining results could also be "events" or "uncertainties" under the rule.

Item 105. The plaintiffs also asserted that Item 105 of Regulation S-K required disclosure of Robinhood's revenue sources during the second quarter of 2021. The panel, however, agreed that the district court correctly rejected this argument, noting that there is no quantification requirement in Item 105.

Dissent. Judge Rawlinson dissented from the majority opinion, with the exception of its holding on Item 105. The dissent argued that the plaintiffs relied on precedent interpreting the antifraud provisions of the Exchange Act, but Section 11 and Item 303 do not hold registrants to the same standard. The majority ignored Ninth Circuit precedent cautioning against reliance on subsequent events to establish the existence of misleading statements as well as precedent delineating the approach to analyzing offering statements by considering the statements made, disclosures accompanying those statements, and the information available to the market. In that context, the dissent said, Robinhood's statements were not misleading.

The case is [No. 24-1036](#).

Judge: Smith, M.

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Companies: Robinhood Markets, Inc.

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