

[Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—S.D. Fla.: Norwegian Cruise Lines faces suit over coronavirus disclosures as stock price sinks, \(Mar. 16, 2020\)](#)

Securities Regulation Daily Wrap Up

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By [John M. Jascob, J.D., LL.M.](#)

The complaint accuses the global cruise company of failing to disclose the use of misleading sales tactics that downplayed the risks of the COVID-19 virus.

A class action complaint has charged Norwegian Cruise Lines and two senior executives with misleading investors about its business prospects while making false statements about the coronavirus (COVID-19) to entice customers to purchase cruises. In a complaint filed in federal district court in Miami, the plaintiff alleges that the company's statements touting its focus on the health and safety of its guests and crew and providing a positive revenue outlook in spite of COVID-19 were materially false and misleading in violation of Exchange Act Section 10(b) and Rule 10b-5 ([Douglas v. Norwegian Cruise Lines](#), March 12, 2020).

The complaint notes that the spread of COVID-19 since the virus's detection in December 2019 has had a significant impact on the cruise industry, with reports of "canceled trips and half-empty ships." In an 8-K filing with the SEC on February 20, 2020, Norwegian Cruise Lines stated that despite the then-known impact from the COVID-19 outbreak, the company's booked position remained ahead of the prior year. The company also touted the procedures it had in place to protect its guests and crew, claiming it had implemented several preventative measures to reduce potential exposure and transmission of COVID-19. In its 10-K filing on February 27, 2020, signed by CEO Frank Del Rio and CFO Mark Kempa, the company again discussed its focus on health and safety and its compliance with standards which govern the cruise industry.

Sales "at all costs." These statements were materially false or misleading, according to the complaint, because Norwegian Cruise Lines was endangering the lives of both their customers and crew members by employing sales tactics that provided customers with unproven or blatantly false statements about coronavirus to boost cruise sales. As evidence, the complaint cites a March 11, 2020, article from the *Miami New Times* that reported statements from leaked employee emails showing that the company directed its sales staff to lie to customers regarding COVID-19.

For example, the article reported that a senior sales manager in Norwegian Cruise Line's Miami office developed canned responses for the sales team to use if potential customers expressed concerns about COVID-19. One script line allegedly sought to reassure customers by saying, "The only thing you need to worry about for your cruise is do you have enough sunscreen?" Another talking point read, "The Coronavirus can only survive in cold temperatures, so the Caribbean is a fantastic choice for your next cruise."

At the same time the company was employing these sales tactics, however, managers were allegedly trying to downplay the disruption in sales "at all costs." "We are hardly selling anything," according to one employee quoted in the article. "Sales are at serious low." On the publication of the article, the complaint alleges, shares of Norwegian Cruise Lines fell approximately 27 percent, damaging investors.

On March 12, 2020, a *Washington Post* article published even more material about Norwegian's alleged sales tactics using information from leaked internal memoranda. One memo included the following statement from a manager: "Fact: Coronavirus in humans is an overhyped pandemic scare." The article also discussed the reactions of company executives to the leaked memoranda reported in the *Miami New Times* article, quoting an email from one executive who wrote, "One of our own ratted." On this news, the complaint claims, the company's shares fell another 36 percent.

As a result of their wrongful acts and omissions, the plaintiff alleges, Norwegian Cruise Lines, Del Rio, and Kempa violated Exchange Act Section 10(b) and Rule 10b-5 and Exchange Action Section 20(a). The complaint seeks damages on behalf of the named plaintiff and the other class members who purchased shares of Norwegian Cruise Lines from February 20, 2020, through March 12, 2020.

The case is [No. 20-cv-21107](#).

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Companies: Norwegian Cruise Lines

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