

YogaWorks Investors' Filing Tweaks Don't Save IPO Suit

By Craig Clough

Law360 (April 24, 2020, 6:26 PM EDT) -- A California federal judge has tossed a proposed investor class action alleging YogaWorks Inc. hid financial problems before going public, saying that simply removing references to the company's alleged actions in 2017 in an amended complaint did not reset the one-year window investors had to bring the lawsuit.

U.S. District Judge Cormac J. Carney on Thursday said the investors' second attempt at the lawsuit did little more than remove references to YogaWorks' alleged wrongdoings that fall outside the statute of limitations. While attempting to recast later actions in a more prominent light.

"Plaintiff contends that the [first amended complaint] cannot be dismissed on this basis because it 'no longer alleges misleading statements based on omission of the 2Q17 financial results,'" the judge said in his order dismissing the complaint with prejudice. "But the fact that plaintiff has now eliminated from the FAC most references to YogaWorks' Q2 2017 financial results does not change the result here."

The shareholders filed the original complaint in December 2018 against the company, some of its executives and board members, majority shareholder Great Hill Partners, and the underwriters for the offering, alleging that declining performance after YogaWorks went public in 2017 was the result of cost-cutting strategies including staffing reductions that "drove declining customer experience and class quality."

Investors alleged those actions were not adequately disclosed in the run-up to the company's August 2017 IPO but began to come to light the following month.

Shares of YogaWorks, which went public at \$5.50 — much lower than its original forecast of \$12 to \$14 per share — eventually plummeted below \$1. The private equity-backed company said last July it would privatize operations and delisted its stock from the Nasdaq exchange.

Judge Carney dismissed the lawsuit in December as time-barred. After the investors filed an amended complaint, YogaWorks, Great Hill and the individual defendants filed a motion to dismiss in February, with the underwriter defendants filing a separate one.

The defendants claim that investors missed a one-year statute of limitations with their original complaint because they had enough information to file a similar complaint more than one year prior.

The judge agreed, saying the amended complaint did not fix the deficiencies of the original while granting both motions to dismiss.

"The material misstatements, misleading statements, and omitted material facts described in the FAC are unchanged from the [original complaint]," the judge said.

The judge noted the investors now argue that damages did not accrue until YogaWorks announced its 2018 second quarter results, but said the argument "is unfounded" because those results were simply part of a downward trend that had begun in 2017, and the original complaint had said so.

"To now assert that the Q2 2018 results were somehow significant on their own is unpersuasive," the judge said.

Counsel for the parties did not immediately respond to requests for comment.

The investors are represented by James I. Jaconette, Danielle S. Myers, Tricia L. McCormick and Juan Carlos Sanchez of Robbins Geller Rudman & Dowd LLP.

YogaWorks, the individual defendants and Great Hill are represented by Joshua G. Hamilton, Meryn C. N. Grant and Setareh Homayoni of Latham & Watkins LLP.

The underwriters are represented by Charlene S. Shimada, Lucy Wang and J. Warren Rissier of Morgan Lewis & Bockius LLP.

The case is In Re: YogaWorks Inc. Securities Litigation, case number 2:18-cv-10696, in the U.S. District Court for the Central District of California.

--Additional reporting by Tom Zanki. Editing by Daniel King.