

Table of Contents

CHAPTER 1

General Pleading Requirements Under the Securities Act of 1933 and the Securities Exchange Act of 1934

A.	Pleading Subject Matter Jurisdiction	1-1
1.	Under the Securities Act	1-1
2.	Under the Exchange Act	1-3
3.	Locus of Corporate Citizenship	1-5
4.	Transnational Securities Fraud Claims	1-6
B.	Pleading Venue	1-12.1
1.	Under the Securities Act	1-12.1
2.	Under the Exchange Act	1-14
C.	Pleading Personal Jurisdiction	1-17
D.	Pleading Standards	1-20
1.	Rule 8	1-20
2.	Rule 9(b)	1-21
3.	Pleading Scienter Under the Reform Act	1-25
4.	Pleading on Information and Belief	1-31
E.	Definition of a “Security” for Purposes of Pleading the Existence of a Security	1-35

CHAPTER 2

Section 11 of the Securities Act — Civil Liability Arising from Misstatements or Omissions in Registration Statements

A.	The Statute	2-1
B.	Elements of a Violation	2-2
1.	Untrue or Misleading Material Statement of Fact or the Failure to State a Material Fact	2-2
2.	Scienter, Reliance, and Causation	2-6
C.	Statute of Limitations and Statute of Repose	2-8
D.	Persons Who May Sue	2-10
E.	Persons Who Are Liable	2-14

F.	Statutory Defenses	2-17
1.	Plaintiff's Knowledge	2-17
2.	Defendant's Resignation	2-18
3.	Registration Statement Becomes Effective Without Defendant's Knowledge	2-18
4.	Due Diligence	2-18
a.	Reasonable Grounds	2-19
b.	"Expertising" Portions of the Registration Statement	2-21
5.	Negative Causation	2-21
G.	Damages	2-22

CHAPTER 3**Section 12(a)(1) of the Securities Act — Civil Liability Arising
from Violation of the Registration and Prospectus Provisions**

A.	The Statute	3-1
B.	Elements of a Violation	3-4
1.	Offer or Sale of a Security by a Person	3-4
2.	Violation of Section 5	3-5
a.	Illegal Sales under Section 5(a)(1)	3-6
b.	Illegal Deliveries of Securities and Prospectuses under Sections 5(a)(2) and 5(b)	3-6
c.	Illegal Offers under Section 5(c)	3-7
3.	Use of Interstate Commerce or the Mails	3-7
C.	Statute of Limitations	3-9
D.	Persons Who May Sue	3-12
E.	Persons Who Are Liable	3-13
1.	Primary Liability	3-13
2.	Secondary Liability	3-16
F.	Damages	3-16
1.	Rescission	3-17
2.	Monetary Damages	3-18
G.	Defenses	3-19
1.	Lack of Violation of Section 5	3-19
2.	Exceptions and Exemptions to Section 5	3-19
3.	In Pari Delicto	3-21
H.	Right to a Jury Trial	3-22

CHAPTER 4**Section 12(a)(2) of the Securities Act — Civil Liability Arising in Connection with Offers or Sales of Securities by Means of False or Misleading Prospectuses or Communications**

A.	The Statute	4-1
B.	Elements of a Violation	4-4
1.	Offer or Sale of a Security by a Person	4-4
2.	Use of Any Means of Interstate Commerce	4-5
3.	Through a Prospectus or Oral Communication	4-7
4.	Untrue or Materially Misleading Statement (and Plaintiff's Lack of Knowledge Thereof)	4-15
5.	Privity between Buyer and Seller	4-19
C.	Statute of Limitations	4-20
D.	Persons Who May Sue	4-25
E.	Persons Who Are Liable	4-26
1.	Primary Liability	4-26
2.	Secondary Liability	4-32
F.	Damages	4-33
1.	Rescission	4-33
2.	Monetary Damages	4-35
G.	Statutory Defenses	4-35
1.	Tender of Securities	4-35
2.	Ignorance of Untruth or Omission and the Due Diligence Defense	4-36
3.	Loss Causation	4-38
4.	The Reform Act's Safe Harbor for Forward-Looking Statements	4-39
H.	Right to a Jury Trial	4-39

CHAPTER 5**Section 10(b) of the Exchange Act — Fraud in the Purchase or Sale of Securities**

A.	The Statute	5-1
B.	Elements of a Cause of Action	5-4
1.	Misrepresentation or Omission	5-4
a.	Duty to Disclose in Omissions Cases	5-5
b.	Duty to Update or Correct	5-8

c.	Forward-Looking Statements	5-9
(1)	The SEC Safe Harbor	5-9
(2)	The Bespeaks Caution Doctrine	5-10
(3)	The Reform Act's Safe Harbor	5-16
2.	Material Fact	5-24
a.	Puffing	5-27
b.	Opinions	5-28
c.	Characterizations	5-29
d.	Firm-Specific Information	5-30
e.	Mismanagement Claims	5-31
f.	Merger Negotiations	5-32
3.	Scienter	5-34
a.	Pleading a “Strong Inference” of Scienter ..	5-35
(1)	Group Pleading	5-39
(2)	Collective Scienter	5-41
(3)	Pleading by Use of Confidential Informants	5-42
b.	Establishing Scienter by Motive and Opportunity	5-45
c.	Establishing Scienter By Recklessness	5-49
d.	Insider Stock Sales	5-53
4.	Causation	5-56
a.	Transaction Causation (or Reliance)	5-59
(1)	Reliance on Affirmative Misrepresentations	5-59
(2)	Fraud on the Market	5-60
(3)	Omission Cases	5-63
b.	Loss Causation	5-63
C.	Statute of Limitations	5-70.1
1.	Applicable Limitations Period	5-70.1
2.	Notice	5-73
3.	Period of Repose	5-75
D.	Stay of Proceedings	5-77
E.	Persons Who May Sue	5-80
1.	Purchaser or Seller Requirement	5-80
2.	“In Connection With” Requirement	5-82
3.	SLUSA and Its Enactment	5-83

TABLE OF CONTENTS

F.	Persons Who Are Liable	5-85
1.	Aiding and Abetting	5-85
2.	The Substantial Participation, Entanglement, and Endorsement Theories of Liability	5-87
3.	<i>Stoneridge</i> and Scheme Liability	5-90
4.	<i>Janus Capital Management</i> and the “Ultimate Authority” Analysis	5-93
G.	Insider Trading	5-94
1.	Theories of Duty	5-94
a.	The Classic Theory of Insider Trading	5-95
b.	The Misappropriation Theory of Insider Trading	5-96.2
c.	Non-Business Relationships That Give Rise to a Duty	5-99
2.	The “On the Basis of” Requirement	5-100
H.	Statutory Defenses	5-101
1.	<i>In Pari Delicto</i>	5-102
2.	Due Diligence	5-103
I.	Damages	5-104
1.	Rescission	5-105
2.	Out of Pocket and Benefit of the Bargain	5-105
a.	Methods of Calculation of Damages	5-105
b.	Reform Act’s 90-Day Bounceback Provision	5-107
3.	Apportionment of Damages	5-107
a.	Joint and Several Liability vs. Comparative Fault	5-107
b.	Contribution Claims	5-109
c.	Impact of Settlement on Non-Settling Defendants	5-111
J.	Right to a Jury Trial	5-112
K.	Sanctions for Meritless Claims	5-112
L.	Elimination of Securities Fraud as a Predicate for RICO	5-114
M.	Auditor Disclosure of Corporate Fraud	5-114
1.	The Statute	5-114
2.	Liability	5-116

CHAPTER 6**Section 14(a) of the Exchange Act — Proxy Litigation**

A.	The Statute	6-1
B.	Elements of a Violation	6-4
1.	Misrepresentation or Omission	6-4
2.	Material Fact	6-6
a.	Allegations of Undisclosed Motivation	6-8
b.	Allegations of Director Misconduct	6-10
c.	Allegations of Conflicts of Interest	6-12
3.	Standard of Culpability	6-13
4.	Causation	6-15
a.	Essential Link	6-15
b.	Loss Causation	6-18
5.	Damages and Injunctive Relief	6-19
a.	Damages	6-19
b.	Injunctive Relief	6-21
C.	Statute of Limitations	6-23
D.	Persons Who May Sue	6-25
E.	Persons Who Are Liable	6-29
F.	Shareholder Proposals	6-31
G.	Stay of Proceedings under the PSLRA	6-33
H.	Right to a Jury Trial.....	6-33

CHAPTER 7**Sections 13 and 14 of the Exchange Act — The Williams Act:
Tender Offer Litigation**

A.	The Statute	7-1
1.	Section 13	7-3
2.	Section 14	7-5
3.	Litigation under the Williams Act	7-7
B.	Section 13(d) Claims	7-8
1.	Control Intent Claims	7-9
2.	Funding Claims	7-12
3.	Identity and Background Claims	7-13
4.	Undisclosed Group Claims	7-14
5.	Remedies	7-16

C. Tender Offer Claims	7-20
1. The Unannounced Tender Offer	7-20
2. Actions by the Target	7-23
a. The Bidder's Purpose	7-23
b. Undisclosed Bidders	7-25
c. Bidder's Financial Information	7-26
d. Background and Integrity Claims	7-27
e. Margin Violations	7-28
f. Bidder's Misuse of Confidential Information	7-31
3. Actions by Raiders	7-33
4. Actions by Shareholders	7-34

CHAPTER 8

Section 16 of the Exchange Act — Short-Swing Profits

A. The Statute	8-1
B. Elements of a Violation	8-2
1. Strict Liability	8-2
2. Status as a Statutory Insider	8-3
a. Ten Percent Beneficial Owner	8-3
b. Director	8-5
c. Officer	8-5
3. Equity Securities	8-6
4. Purchase and Sale Within a Six-Month Period	8-7
a. What Counts as a Purchase or Sale	8-7
b. When a Purchase or Sale Takes Place	8-7
5. Exempt Transactions	8-9
a. Statutory Exemptions	8-9
b. Unorthodox Transactions	8-10
c. Fiduciaries	8-12
d. Market Makers and Odd-Lot Dealers	8-12
e. Underwriters	8-12
f. Arbitrage	8-12
C. Damages	8-13
D. Standing	8-14

E.	Attorney's Fees	8-15
F.	Defenses	8-16
1.	Good Faith Reliance	8-16
2.	Double Recovery	8-16
3.	Statute of Limitations	8-16
4.	Unsuccessful Defenses	8-17

CHAPTER 9**Section 18 of the Exchange Act — Liability for False Filings**

A.	The Statute	9-1
B.	Elements of a Cause of Action	9-2
1.	Application, Report, or Document Filed with the SEC	9-2
2.	False Statements	9-3
3.	Purchase or Sale in Reliance on the Filing	9-4
C.	Statute of Limitations	9-5
D.	Persons Who May Sue	9-6
E.	Persons Who Are Liable	9-7
F.	Statutory Defenses	9-7
G.	Right to a Jury Trial	9-8

CHAPTER 10**Section 20A of the Exchange Act — Civil Liability of Insider Traders
to Contemporaneous Traders**

A.	The Statute	10-1
B.	Elements of a Cause of Action	10-3
1.	Predicate Violation	10-3
2.	Contemporaneous Trading	10-3
C.	Pleading Standard	10-6
D.	Controlling Person Liability	10-7
E.	Statute of Limitations	10-8
F.	Damages	10-8
1.	Amount of Damages	10-8
a.	Damages Are Limited to Defendant's Gain	10-8
b.	Relevance of Plaintiff's Losses	10-11

2.	Deduction for Amounts Paid to SEC	10-12
G.	Relationship to Section 10(b) Claims	10-13

CHAPTER 11**Liability of Controlling Persons**

A.	The Statutes	11-1
B.	Elements of a Violation	11-4
1.	Primary Liability	11-5
2.	Control	11-6
3.	Culpable Participation	11-7
C.	Statutory Affirmative Defenses	11-9
D.	Comparison with Common Law Tort of <i>Respondeat Superior</i>	11-12
E.	Statute of Limitations	11-16
F.	Persons Who May Sue	11-17
G.	Damages	11-18
H.	Right to a Jury Trial.....	11-19

CHAPTER 12**Criminal Violations of the Securities Act of 1933 and the Securities Exchange Act of 1934**

A.	The Exchange Act of 1934	12-1
1.	The Statute	12-1
2.	Criminal Mens Rea for a Violation of the Exchange Act of 1934	12-2
a.	The Meaning of “Willfully”	12-2
b.	The Meaning of “Willfully and Knowingly”	12-8
c.	The “Materiality” Standard	12-9
d.	Defense to Imprisonment for Violations of the Exchange Act: The “No Knowledge” Rule	12-10
B.	The Securities Act of 1933	12-13
1.	The Statute	12-13
2.	The Meaning of “Willfully” under the Securities Act of 1933	12-13

FEDERAL SECURITIES LITIGATION

Securities Act of 1933: Cumulative Table.....	INDEX-1
Securities Exchange Act of 1934: Cumulative Table.....	INDEX-3
Table of Cases	INDEX-7
Subject Index	INDEX-79