

Table of Contents

	Page
PREFACE	v
Chapter 1. The Basic Coverage of the Securities Laws	1
§ 1. Overview of the Securities Markets and Their Operation	1
§ 2. History, Scope, and Coverage of Federal and State Securities Regulatory Schemes	13
§ 3. The Securities and Exchange Commission; Structure of the SEC	20
§ 4. The SEC's Subject-Matter Jurisdiction	26
§ 5. Definition of "Security"	27
§ 6. Derivative Investments: Stock Options, Index Options, and Futures	37
Chapter 2. Registration Requirements of the Securities Act of 1933	41
§ 7. Overview of 1933 Act Registration	41
§ 8. The Underwriting Process	41
§ 9. The Operation of 1933 Act § 5	46
§ 10. The Pre-Filing Period	50
§ 11. The Waiting Period	55
§ 12. The Post-Effective Period	60
Chapter 3. The 1933 Act Registration Process and Disclosure	64
§ 13. The Decision to Go Public	64
§ 14. Preparation of the Registration Statement	68
§ 15. Information Required in the Registration Statement and the Statutory Prospectus; Schedule A	72
§ 16. Registration Forms and Integrated Disclosure	73
§ 17. SEC Statutory Procedures—1933 Act § 8	75
§ 18. Processing the Registration Statement After Filing	78
§ 19. Frequent Deficiencies in Registration Statements and Other Disclosures; The Plain English Requirement	79
§ 20. Common Disclosure Problems—Dilution of the Public's Investment, Business Risks, Transactions With Controlling Persons, and Projections	81

	Page
§ 21. Delayed and Continuous Offerings—Shelf Registrations	90
Chapter 4. Exemptions From 1933 Act Registration	92
§ 22. Securities and Transactions Exempt From the 1933 Act's Registration Requirements—1933 Act §§ 3 and 4	93
§ 23. Securities of Governments, Banks, Insurance Companies, and Qualified Pension Plans—1933 Act § 3(a)(2)	95
§ 24. Short Term Commercial Paper—1933 Act § 3(a)(3)	95
§ 25. Securities of Eleemosynary Organizations—1933 Act § 3(a)(4)	95
§ 26. Securities of Building and Loan Associations, Farmers Cooperatives and the Like—1933 Act § 3(a)(5)	96
§ 27. Certificates Issued Under the Bankruptcy Act by Receivers and Trustees—1933 Act § 3(a)(7)	96
§ 28. Insurance Policies and Annuity Contracts—1933 Act § 3(a)(8)	97
§ 29. Securities Exchanged Exclusively With Existing Security Holders—1933 Act § 3(a)(9)	97
§ 30. Securities Issued in Judicially or Administratively Approved Reorganizations—1933 Act § 3(a)(10)	98
§ 31. The Exemption for Purely Intrastate Offerings—1933 Act § 3(a)(11); 1933 Act Rule 147	98
§ 32. Qualified Exemptions for Small Issues; 1933 Act §§ 3(b), 4(6), and 3(c)	102
§ 33. Regulation A—Qualified Exemption for Offerings Up to \$5,000,000 Per Year	104
§ 34. Rule 701—Exemption for Employee Compensation Plans of Issuers Not Subject to Exchange Act Periodic Reporting Requirements	105
§ 35. Exemption for Issuer Transactions Not Involving a Public Offering (“The Private Placement Exemption”)—1933 Act § 4(2)	106
§ 36. Regulation D	109
§ 37. Transactions by Persons Other Than Issuers, Underwriters, and Dealers: 1933 Act § 4(1); Unsolicited Brokers’ Transactions—1933 Act § 4(4)	114
§ 38. Who Is an Underwriter?—1933 Act § 2(a)(11)	117
§ 39. The Safe Harbor Exemption for Secondary Transactions—1933 Act Rule 144	123
§ 40. The § “4(1½)” Exemption for Downstream Sales; 1933 Act Rule 144A	126
§ 41. The Exemption for Certain Dealers’ Transactions—1933 Act § 4(3)	128

	Page
§ 42. Exemption for Certain Offshore Transactions in Securities of United States Issuers—Regulation S.....	129
§ 43. The SEC's General Exemptive Authority	131
§ 44. Integration of Transactions.....	131
Chapter 5. The Theory of Sale: Corporate Recapitalizations, Reorganizations and Mergers Under the 1933 Act	134
§ 45. 1933 Act Application to Unconventional Transactions—1933 Act § 2(a)(3)'s Definition of Sale; Gifts, Bonus Plans, and Pledges; Effect of State Law.....	134
§ 46. Corporate Recapitalizations, Reorganizations, and Mergers Under the 1933 Act: Rule 145	137
§ 47. 1933 Act § 2(a)(3)'s Definition of Sale: Warrants, Employee Stock Plans, Stock Dividends, and Spin-Offs Under the 1933 Act.....	139
Chapter 6. IPO Practices: Manipulation, Stabilization and Hot Issues.....	142
§ 48. Manipulation: An Overview	142
§ 49. Manipulation and Price Stabilization Involving Public Offerings	143
§ 50. Aftermarket Activities, IPO Practices, Hot Issues, Workout Markets, and Controlled Markets.....	146
Chapter 7. Liability Under the Securities Act of 1933 ..	152
§ 51. Consequences of Deficient Registration Statements—Administrative Action, Criminal Sanctions, SEC Injunctive Relief, and Private Remedies.....	152
§ 52. Civil Liability for Failure to Comply With 1933 Act § 5's Requirements—1933 Act § 12(a)(1)'s Private Remedy.....	154
§ 53. Liability for Misstatements and Omissions in the Registration Statement—The Private Remedy Under § 11 of the 1933 Act	156
§ 54. 1933 Act § 12(a)(2)—Liability for Material Misstatements or Omissions by Sellers of Securities.....	167
§ 55. The Securities Act's General Prohibition on Material Misstatements and Omissions—1933 Act § 17.....	169
§ 56. Multiple Defendants—Joint and Several Liability; Liability of Controlling Persons; Aiding and Abetting; Indemnification Agreements	170
§ 57. Special Rules and Procedures for Securities Class Actions	173

	Page
Chapter 8. State Blue Sky Laws	175
§ 58. State Blue Sky Laws: Their Origins, Purpose, and Basic Coverage	175
Chapter 9. Securities Exchange Act of 1934—Registration and Reporting Requirements for Publicly Traded Companies	179
§ 59. The Securities Exchange Act of 1934—Overview	179
§ 60. Registration of Securities Under the Securities Exchange Act of 1934	181
§ 61. Annual, Periodic, and Continuous Reporting Requirements for Public Companies	183
§ 62. Disclosure Guidelines—Regulations S-K and S-B	187
§ 63. Accounting and Auditing Requirements	188
§ 64. Corporate Governance and the Federal Securities Laws; Codes of Ethics, Compensation Limitations, and Listing Standards	195
§ 65. Controls on Attorney Practice	198
Chapter 10. Shareholder Suffrage—Proxy Regulation	203
§ 66. The Regulation of Shareholder Suffrage Under the Exchange Act—1934 Act § 14 and the Proxy Rules: Introduction; Regulation of Voting Rights	203
§ 67. Full Disclosure in the Solicitation of Proxies	205
§ 68. Rule 14a-9 and the Implied Remedy for Material Misstatements and Omissions in Proxy Materials; Standing to Sue; Scienter vs. Negligence; Attorneys' Fees	209
§ 69. Security Holders' Access to the Proxy System: Right to Information; Shareholder List	211
§ 70. Security Holders' Access to the Proxy System: Shareholder Proposals and the Shareholder Proposal Rule	212
§ 71. Disclosure in Lieu of Proxy Solicitation—1934 Act § 14(c)	218
§ 72. Securities Held in Street Name; Broker-Dealers and Federal Proxy Regulation—1934 Act § 14(b)	218
Chapter 11. Tender Offer and Takeover Regulation	219
§ 73. Federal Control of Tender Offers—The Williams Act; The Terminology of Takeovers	219
§ 74. Filing Requirements for Acquisition of More Than Five Percent of Equity Securities of an Exchange Act Reporting Company—1934 Act § 13(d)	223
§ 75. Definition of Tender Offer	225
§ 76. Filings, Disclosures and Procedures for Tender Offers—1934 Act § 14(d) and Regulation 14D	228
§ 77. Unlawful Tender Offer Practices—1934 Act § 14(e) and Regulation 14E	234

	Page
§ 78. Arrangements Affecting Director Turnover in Connection With a Tender Offer—1934 Act § 14(f)	237
§ 79. Issuer Purchases of Its Own Stock—1934 Act § 13(e) and the Going Private Rule; Issuer Self-Tender Offers	238
§ 80. Private Remedies Under the Williams Act—Remedies for Violations of 1934 Act §§ 13(d), 13(e), 14(d), 14(e)	240
§ 81. Responses to Tender Offers: Anti-Takeover Moves and Defensive Tactics	242
§ 82. State Regulation of Tender Offers	244
Chapter 12. Manipulation and Fraud—Civil Liability; Implied Private Remedies; SEC Rule 10b-5; Fraud in Connection With the Purchase or Sale of Securities; Improper Trading on Nonpublic Material Information	247
§ 83. Market Manipulation and Deceptive Practices—1934 Act §§ 9, 10, 14(e), 15(c)	248
§ 84. Implied Remedies in the Federal Courts	253
§ 85. Section 10(b) and the Evolution of the Implied Remedy Under 1934 Act Rule 10b-5	254
§ 86. Rule 10b-5 Overview; Summary of the Principal Elements	257
§ 87. “In Connection With” the Purchase or Sale of Any Security	260
§ 88. “Purchase or Sale”—Identifying Purchases and Sales	261
§ 89. Standing to Sue	262
§ 90. The Scienter Requirement; 1933 Act § 17(a) and 1934 Act Rule 14a-9 Compared	264
§ 91. Materiality	266
§ 92. Reliance; Fraud on the Market	271
§ 93. Causation	273
§ 94. The Measure of Damages	274
§ 95. Securities Class Actions; Litigation Reform	276
§ 96. Insider Trading	281
§ 97. Liability for Material Misstatements and Omissions of Fact in Documents Filed With the SEC—1934 Act § 18(a)	291
§ 98. Corporate Affirmative Disclosure Obligations and Accountability	292
§ 99. Corporate Mismanagement, Rule 10b-5 and the Deception Requirement	296
§ 100. The Effect of Plaintiff’s Conduct on Implied Civil Liability; Due Diligence; In Pari Delicto	298

	Page
§ 101. Waiver of Claims; Voiding of Contracts in Violation of the Securities Laws.....	299
§ 102. Multiple Defendants: Controlling Person Liability; Aiding and Abetting; Joint Liability	300
Chapter 13. Insider Reporting, Short-Swing Trading, and False SEC Filings	305
§ 103. Reporting Requirements for Insiders and Their Transactions in Shares—1934 Act § 16(a)	305
§ 104. Disgorgement of Insider Short-Swing Profits—1934 Act § 16(b)	309
§ 105. Who Is Subject to 1934 Act §§ 16(a) and (b)? When Does Insider Status Attach?	315
§ 106. The Definition of “Purchase” and “Sale” and the Pragmatic Approach Under 1934 Act § 16(b)	319
§ 107. Prohibitions Against Short Sales by Insiders—1934 Act § 16(c)	321
Chapter 14. Market Regulation; Broker-Dealers	323
§ 108. Market Regulation—An Overview	324
§ 109. Self Regulation	327
§ 110. Antitrust Laws and Market Regulation	330
§ 111. State Regulation of Broker-Dealers—Limited Preemption	331
§ 112. Broker-Dealer Registration; Definitions	331
§ 113. Broker-Dealer Registration Requirements; Supervisory Duties	332
§ 114. Municipal Securities Dealers	334
§ 115. Regulation of Government Securities Dealers	335
§ 116. Broker-Dealer Net Capital and Reserve Requirements	335
§ 117. The Margin Rules and Extension of Credit for Securities Transactions	337
§ 118. Market Makers in the Over-the-Counter Markets.....	343
§ 119. Trading on Stock Exchanges; The Specialist System	347
§ 120. Execution of Customer Orders.....	350
§ 121. Brokerage Commissions—Disclosure, Payment for Order Flow, Excessive Mark-Ups	352
§ 122. Broker-Dealers and Fiduciary Obligations; The Shingle Theory	355
§ 123. A Broker’s Obligation to Customers With Regard to Recommendations: The Know Your Security, Suitability, and Know Your Customer Obligations; Scalping	357
§ 124. High Pressure Sales Tactics: Boiler Room Operations; Penny Stock Regulation; Microcap Fraud.....	361
§ 125. Excessive Trading in Securities—Churning	364
§ 126. Unauthorized Trading.....	365

	Page
§ 127. Regulation of "Short Sales"	366
§ 128. Parking	368
§ 129. Broker-Dealer Bankruptcy—The Securities Investor Protection Act	368
§ 130. Private Remedies	369
§ 131. Arbitration of Disputes Involving Broker-Dealers	371
Chapter 15. Debt Securities and Protection of Bond- holders—The Trust Indenture Act of 1939	372
§ 132. Trust Indenture Act of 1939; Overview; Exemptions....	372
§ 133. Qualification Under the Trust Indenture Act	374
§ 134. Duties of Trustee When the Issuer Defaults	376
§ 135. Enforcement; Remedies for Trustees' Breaches of Duties	376
Chapter 16. Federal Regulation of Investment Compa- nies—The Investment Company Act of 1940	378
§ 136. The Investment Company Act of 1940: Background and Scope	378
§ 137. The Relationship Between Investment Companies, In- vestment Advisers, and Underwriters	381
§ 138. The Definition of "Investment Company"; The Prob- lem of the Inadvertent Investment Company	382
§ 139. Companies Covered by the Investment Company Act— Statutory Definitions, Exemptions and Classification	383
§ 140. Regulating the Distribution and Pricing of Investment Company Shares	384
§ 141. Fiduciary Duties; Independent Investment Company Directors	390
§ 142. Transactions Between an Investment Company and Affiliated Persons	394
§ 143. Registration and Disclosure Requirements; Civil Lia- bility	395
§ 144. Limitations on Advisory Fees; Transfers of Control— The "Sale" of Investment Advisory Contracts	397
Chapter 17. Investment Advisers Act of 1940	400
§ 145. Regulation of Investment Advisers; Terms and Condi- tions in Advisory Contracts	400
§ 146. Who Is Subject to the Advisers Act—Definitions, Ex- clusions, and Exemptions	401
§ 147. Investment Adviser Registration and Reporting Re- quirements	406
§ 148. Prohibited Practices	408
Chapter 18. Related Laws	411
§ 149. Related Laws—Overview	411

	Page
§ 150. The Foreign Corrupt Practices Act.....	414
§ 151. Securities Fraud and the Racketeer Influenced and Corrupt Organizations Act (RICO).....	415
§ 152. The Intertwining of Financial Services: Commercial Banks, Investment Banking, and Investment Ser- vices	416
§ 153. Derivatives Regulation Under the Commodity Ex- change Act.....	416
APPENDIX.....	422
TABLE OF CASES	425
INDEX	433