No. _____

In The Supreme Court of the United States

PIVOTAL SOFTWARE, INC., ET AL., PETITIONERS,

v.

ZHUNG TRAN, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEAL FOR THE STATE OF CALIFORNIA, FIRST APPELLATE DISTRICT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Section 77z-1(b)(1) of the Private Securities Litigation Reform Act ("Reform Act") provides:

> *In any private action arising under* [the Securities Act of 1933], all discovery and other proceedings shall be stayed during the pendency of any motion to dismiss, unless the court finds, upon the motion of any party, that particularized discovery is necessary to preserve evidence or to prevent undue prejudice to that party.

15 U.S.C. § 77z-1(b)(1) (emphasis added).

The question presented is:

Whether the Reform Act's discovery-stay provision applies to a private action under the Securities Act in state or federal court, or solely to a private action in federal court.

PARTIES TO THE PROCEEDING

Pursuant to Rules 14.1 and 29.6, Petitioners state the following:

Petitioners (defendants-petitioners below) are Pivotal Software, Inc.; Robert Mee; Cynthia Gaylor; Paul Maritz; Michael Dell; Zane Rowe; Egon Durban; William D. Green; Marcy S. Klevorn; Khozema Z. Shipchandler; Morgan Stanley & Co. LLC; Goldman Sachs & Co. LLC; Citigroup Global Markets Inc.; Merrill Lynch; Pierce, Fenner & Smith Inc.; Barclays Capital Inc.; Credit Suisse Securities (USA) LLC; RBC Capital Markets, LLC; UBS Securities LLC; Wells Fargo Securities LLC; KeyBanc Capital Markets Inc.; William Blair & Company, L.L.C.; Mischler Financial Group, Inc.; Samuel A. Ramirez & Co., Inc.; Siebert Cisneros Shank & Co., LLC; Williams Capital Group, L.P. (the latter two, Siebert Williams Shank & Co., LLC); and Dell Technologies Inc.

Respondents are Zhung Tran, Alandra Mothorpe, and Jason Hill (plaintiffs-real parties in interest below) ("Plaintiffs"), and the Superior Court for the City and County of San Francisco (respondent in the Court of Appeal).

CORPORATE DISCLOSURE STATEMENT

Petitioner Pivotal Software, Inc. ("Pivotal") states that VMware, Inc. and Dell Technologies Inc. directly or indirectly own 10% or more of Pivotal's stock, and that no other publicly held company owns 10% or more of Pivotal's stock.

Petitioner Morgan Stanley & Co. LLC is a limited liability company whose sole member is Morgan Stanley Domestic Holdings, Inc., a corporation wholly owned by Morgan Stanley Capital Management, LLC, a limited liability company whose sole member is Morgan Stanley. Morgan Stanley is a publicly held corporation that has no parent corporation. Based on Securities and Exchange Commission Rules regarding beneficial ownership, Mitsubishi UFJ Financial Group, Inc. 7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8330, beneficially owns greater than 10% of Morgan Stanley's outstanding common stock.

Petitioner Goldman Sachs & Co. LLC is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. ("Group Inc."), except for de minimis nonvoting, non-participating interests held by unaffiliated broker-dealers. Group Inc. is a corporation organized under the laws of Delaware and whose shares are publicly traded on the New York Stock Exchange. No other publicly held company owns a 10% or more interest in Goldman Sachs & Co. LLC.

Petitioner Citigroup Global Markets Inc. is a wholly-owned subsidiary of Citigroup Financial Products Inc., which in turn, is a wholly-owned subsidiary of Citigroup Global Markets Holdings

Inc., which in turn, is a wholly-owned subsidiary of Citigroup Inc., a publicly traded company. Citigroup Inc. has no parent corporation, and no publicly traded corporation owns 10% or more of its stock to the best of Citigroup Global Markets Inc.'s knowledge.

Petitioner Merrill Lynch, Pierce, Fenner & Smith Inc. (n/k/a BofA Securities, Inc.) is a direct, wholly-owned subsidiary of NB Holdings Corporation. NB Holdings Corporation is a direct, wholly-owned subsidiary of Bank of America Corporation. Bank of America Corporation is a publicly held company whose shares are traded on the New York Stock Exchange and has no parent corporation. Based on the U.S. Securities and Exchange Commission Rules regarding beneficial ownership, Berkshire Hathaway Inc., 3555 Farnam Street, Omaha, Nebraska 68131, beneficially owns greater than 10% of Bank of America Corporation's outstanding common stock.

Petitioner Barclays Capital Inc. is an indirect wholly-owned subsidiary of Barclays PLC, a publicly traded corporation, and no other publicly traded entity owns 10% or more of Barclays Capital Inc.'s stock.

Petitioner Credit Suisse Securities (USA) LLC is a wholly-owned subsidiary of Credit Suisse (USA), Inc., a private company, which is a wholly-owned subsidiary of Credit Suisse Holdings (USA), Inc., a private company, which is a jointly-owned subsidiary of (1) Credit Suisse AG, Cayman Islands Branch, which is a branch of Credit Suisse AG, and (2) Credit Suisse AG, a private company, which in turn is a wholly-owned subsidiary of Credit Suisse

Group AG, a publicly held company. Credit Suisse Group AG has no parent company and no publicly held corporation owns 10% or more of its stock.

Petitioner RBC Capital Markets, LLC is an indirect wholly-owned subsidiary of Royal Bank of Canada, which is a publicly traded company. Royal Bank of Canada has no parent company, and there are no publicly held companies that own 10% or more of Royal Bank of Canada's common stock.

Petitioner UBS Securities LLC's corporate parents are UBS Americas Holding LLC and UBS Americas Inc., the latter of which is wholly owned by UBS Americas Holding LLC. UBS Americas Holding LLC is wholly owned by UBS AG, which is wholly owned by UBS Group AG, a publicly traded corporation. No publicly held corporation holds 10% or more of UBS Group AG stock.

Petitioner Wells Fargo Securities, LLC is a wholly-owned subsidiary of EVEREN Capital Corporation. EVEREN Capital Corporation is a wholly-owned subsidiary of WFC Holdings, LLC, which, in turn, is a wholly-owned subsidiary of Wells Fargo & Company, a publicly traded corporation. Wells Fargo & Company has no parent corporation and no publicly held corporation owns 10% or more of its stock.

Petitioner KeyBanc Capital Markets Inc. is a wholly-owned subsidiary of KeyCorp. KeyCorp is a publicly held company whose shares are traded on the New York Stock Exchange. The Vanguard Group, Inc., a publicly held company, owns 10% or more of KeyCorp's shares. No other publicly held company owns 10% or more of KeyCorp's shares.

Petitioner Mischler Financial Group, Inc. has no parent corporation and no publicly held corporation owns 10% or more of its stock.

Petitioner Samuel A. Ramirez & Co., Inc. is wholly owned by SAR Holdings, Inc., which is owned by its employees, and no publicly held corporation owns 10% or more of its stock.

Petitioner William Blair & Company, L.L.C. is a wholly-owned subsidiary of WBC Holdings, L.P. WBC Holdings, L.P. is privately owned by approximately 180 limited partners who are active in the firm's businesses. To the best of its knowledge, no publicly held corporation owns 10% or more of the stock of WBC Holdings, L.P.

Petitioner Siebert Williams Shank & Co., LLC ("SWS") hereby discloses that Shank Williams Cisneros, LLC is the non-publicly traded parent company of SWS.

Petitioner Dell Technologies Inc. is a corporation whose Class C shares are traded on the New York Stock Exchange. There are no interested entities or persons other than Michael S. Dell, Silver Lake Partners, a private equity firm, and Dodge & Cox, a privately held complex of mutual funds, with an ownership interest of 10% or more in any class of the equity securities of Dell Technologies Inc.

STATEMENT OF RELATED PROCEEDINGS

This case arises from the following proceedings:

In re Pivotal Software, Inc. Securities Litigation, Case No. CGC19576750 (Superior Court of California, County of San Francisco) (order entered Mar. 4, 2021);

Pivotal Software, Inc. et al. v. Superior Court for the City and County of San Francisco, No. A162228 (Court of Appeal of the State of California, First Appellate District) (order entered Mar. 23, 2021);

Pivotal Software, Inc. et al. v. Superior Court of City and County of San Francisco, No. S267949 (Supreme Court of California) (order entered Apr. 14, 2021).

The following proceedings are also directly related to this case under Rule 14.1(b)(iii) of this Court:

In re Pivotal Software, Inc. Securities Litigation, Case No. CGC19576750 (Superior Court of California, County of San Francisco) (order entered Oct. 27, 2020);

Pivotal Software, Inc., et al. v. Superior Court for the County of San Francisco, No. A161571 (Court of Appeal of the State of California, First Appellate District) (order entered Dec. 16, 2020).

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PETITION FOR A WRIT OF CERTIORARI

In the Private Securities Litigation Reform Act, Pub. L. No. 104-67, 109 Stat. 737 (1995) (the "Reform Act"), Congress sought to curb various abuses of the federal securities laws, including the Securities Act of 1933, 15 U.S.C. § 77a, et seq. (the "Securities Act"). Among other things, Congress was concerned that securities plaintiffs' burdensome discovery requests would force early settlements of meritless claims, thus incentivizing plaintiffs to bring meritless claims. Congress thus crafted a provision that automatically stays all discovery until the presiding court has sustained the legal sufficiency of the complaint. *See* 15 U.S.C. § 77z-1(b)(1). The Reform Act's discovery-stay provision applies "[i]n *any* private action arising under" the Securities Act. *Ibid.* (emphasis added).

Despite that plain language, state courts across the country are sharply divided over whether this discovery-stay provision applies to Securities Act suits brought in state court, rather than just to ones brought in federal court. Some state courts (like the one here) permit discovery to proceed before determining whether plaintiffs have stated a claim. Others—recognizing that "any" private Securities Act action means "any" private Securities Act action—do not. The divide has only deepened since this Court's decision in *Cyan, Inc. v. Beaver County Employees Retirement Fund*, 138 S. Ct. 1061 (2018), which confirmed that state courts retain concurrent jurisdiction over Securities Act claims. Since *Cyan*, plaintiffs have increasingly filed Securities Act claims in state courts, where the potential for obtaining discovery on even meritless claims creates the opportunity to coerce a settlement.

This case is a prime example of the problems that arise when state trial courts disregard an express congressional mandate. Plaintiffs invoked the Securities Act to sue Petitioners in California state court. They challenge allegedly false statements contained in a registration statement that Petitioner Pivotal Software, Inc. ("Pivotal") issued in connection with its April 2018 initial public offering ("IPO"). Those claims are meritless—a federal district court has already dismissed a parallel lawsuit advancing similar claims. *In re Pivotal Sec. Litig.*, No. 19-CV-03589-CRB, 2020 WL 4193384 (N.D. Cal. July 21, 2020). And the California trial court has not overruled Petitioners' demurrer or otherwise suggested that Plaintiffs have stated a viable claim. But the trial court still allowed Plaintiffs to seek discovery, concluding that the Reform Act's automatic discovery-stay provision applies only in federal court. As a result, Plaintiffs have proceeded with expansive requests for costly production of documents and written interrogatories targeting the twenty-six Petitioners.

This Court should grant a writ of certiorari. The division among the state trial courts shows no hint of resolving itself, and they are the only courts likely ever to decide this federal question, which evades appellate review. Clarification of this issue is of critical importance, particularly because the number of federal securities actions filed in state courts has increased in the wake of *Cyan*. And the trial court's decision contradicts the plain text of the Reform Act's discovery stay—which, again, applies "[i]n *any* private action arising under" the Securities Act, 15 U.S.C. § 77z-1(b)(1) (emphasis added)—and misreads *Cyan*. Plaintiffs should not be permitted to invoke the Securities Act to get into court, then ignore the textual limitations Congress imposed on such suits.

ORDERS BELOW

The California Superior Court's order allowing Plaintiffs to take discovery is unreported, but reproduced at Pet. App. 1a-12a. The order of the California Court of Appeal, First Appellate District, denying Petitioners' petition for writ of mandate and accompanying stay request is unreported, but reproduced at Pet. App. 13a. The California Supreme Court's order denying Petitioners' petition for review and stay application is unreported, but reproduced at Pet. App. 14a.

JURISDICTION

This Court has jurisdiction under 28 U.S.C. § 1257(a) because the Court of Appeal's denial of Petitioners' writ petition (Pet. App. 13a) finally terminated a "self-contained case." *Atl. Richfield Co. v. Christian*, 140 S. Ct. 1335, 1349 (2020); *see Bandini Petrol. Co. v. Super. Ct.*, 284 U.S. 8, 14 (1931); CAL. CONST. art. 6, § 10. Given that the denial was summary, the Court "looks through" to "the last reasoned decision," which here is that of the Superior Court. *Ylst v. Nunnemaker*, 501 U.S. 797, 804 (1991) (internal quotation marks omitted); *see* Stephen M. Shapiro et al., *Supreme Court Practice* § 3.12 (11th ed. 2019). The Court also has jurisdiction to review the Superior Court's order (Pet. App. 1a-12a) because the order definitively resolved this federal issue, which is independent of any other matters remaining to be litigated, and which Petitioners cannot raise again in state court. *See Cox Broadcasting Corp. v. Cohn*, 420 U.S. 469, 480-81 (1975). The Court exercised jurisdiction under these circumstances in *Cyan*, 138 S. Ct. at 1068-69.

STATUTORY PROVISIONS INVOLVED

Section 77z-1(b)(1) of the Reform Act provides:

> *In any private action arising under* this subchapter, all discovery and other proceedings shall be stayed during the pendency of any motion to dismiss, unless the court finds, upon the motion of any party, that particularized discovery is necessary to preserve evidence or to prevent undue prejudice to that party.

15 U.S.C. § 77z-1(b)(1) (emphasis added). "[T]his subchapter," in turn, refers to subchapter 2A of Title 15 of the U.S. Code—that is, the Securities Act. *See* 15 U.S.C. § 77a.[1]

Additional relevant provisions of the Reform Act are reproduced at Pet. App. 19a-40a.

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[1] In the statute enacted by Congress (which was subsequently codified), the provision read "any private action arising under this *title*," which likewise referred to "the Securities Act of 1933." Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, §§ 101-02, 109 Stat. 737 (emphasis added).

STATEMENT OF THE CASE

A. Statutory Framework

Congress enacted the Reform Act to combat "perceived abuses" of the federal securities laws—both the Securities Act of 1933 and the Securities Exchange Act of 1934, 15 U.S.C. § 78a et seq. (the "Exchange Act"). *See Merrill Lynch, Pierce, Fenner & Smith Inc. v. Dabit*, 547 U.S. 71, 81 (2006). Among other things, Congress mandated sanctions for frivolous litigation, imposed a heightened pleading standard for certain claims, created a "safe harbor" for forward-looking statements, and (as directly relevant here) prohibited discovery until after the complaint had survived a motion to dismiss. *Ibid.* (internal quotation marks omitted); *see* 15 U.S.C. § 77z-1.

Some federal securities claims—such as those under Sections 77k, 77*l*, and 77*o* of the Securities Act—may be brought in either federal or state court. *See Cyan*, 138 S. Ct. at 1066 (rejecting argument that statute subsequent to Reform Act stripped state courts of jurisdiction they previously exercised). As a result, many Reform Act provisions apply to Securities Act claims regardless of whether they are filed in federal or state court. *Ibid.*

The discovery-stay provision at issue here provides, in relevant part:

> In *any private action arising under this subchapter*, all discovery and other proceedings shall be stayed during the pendency of any motion to dismiss, unless the court finds, upon the motion of any party, that particularized discovery is necessary to

> preserve evidence or to prevent undue prejudice to that party.

15 U.S.C. § 77z-1(b) (emphasis added). "[T]his subchapter" refers to the Securities Act. *See* 15 U.S.C. § 77a.

B. Factual Background

Pivotal provides a "cloud-native" software platform called Pivotal Cloud Foundry that allows customers to build, deploy, and operate cloud-based software and applications. First Am. Consolidated Compl. at ¶¶ 2, 16, *In re Pivotal Software, Inc. Sec. Litig.*, No. CGC19576750 (Cal. Super. Ct. Jan. 15, 2021).[2] Pivotal launched its IPO in April 2018 at a price of $15 per share. *Id.* at ¶¶ 77-79. Pivotal's registration statement included a detailed overview of Pivotal's products, business operations, and financial results, along with almost forty pages of risk disclosures. *In re Pivotal Sec. Litig.*, 2020 WL 4193384, at *2.

In August 2019, Pivotal announced a proposed merger with VMware, Inc. at $15 per share, the same price as the IPO. Stipulation and Order to Stay at 1 (Oct. 1, 2019). The merger closed at the end of 2019. *Ibid*. Stockholders who purchased stock in the IPO and held their shares through the merger thus broke even.

C. Procedural Background

After Pivotal lowered its going-forward guidance in June 2019, its stock price fell, and a number of

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[2] Subsequent citations to documents entered on the California Superior Court's docket are cited by title and date.

plaintiffs filed putative securities class actions in federal and state courts.

1. The federal court proceedings

The federal court cases, consolidated before Judge Charles R. Breyer in the Northern District of California, proceeded first. Among other claims, the federal plaintiffs asserted claims under the Securities Act alleging that Pivotal's registration statement, which described "cutting-edge" products in a "rapidly growing market," was false and misleading, and that it made inadequate disclosures. *In re Pivotal Sec. Litig.*, 2020 WL 4193384, at *5-*8.

The federal district court dismissed the consolidated federal complaint for failure to state a claim. As the court explained, the federal plaintiffs had not plausibly alleged that any of the challenged statements about Pivotal's product offerings, Pivotal's competition, or risks to Pivotal's business were actually false. *In re Pivotal Securities Litig.*, 2020 WL 4193384 at *6-*7. It further concluded that all claims based on statements of corporate optimism or that were forward-looking in nature were inactionable as a matter of law, and that Pivotal had violated no applicable duty to disclose. *Id.* at *6-*8; *18-*19. And although the district court permitted amendment, the federal plaintiffs voluntarily dismissed with prejudice. Stipulation and Order to Dismiss at 2-3, *In re Pivotal Sec. Litig.*, No. 19-cv-03589-CRB (N.D. Cal. Sept. 15, 2020), ECF 104.

2. The state court proceedings

Meanwhile, the Plaintiffs here filed class actions in California Superior Court, purportedly on behalf of all those who purchased Pivotal stock in its IPO. They asserted Securities Act claims similar to those in the

federal court action. *See, e.g.*, First Am. Consolidated Compl. at ¶ 64; Am. Compl. at ¶¶ 54, 56 (Sept. 24, 2019). The cases were consolidated. Stipulation and Order Consolidating Cases at 1 (Jan. 6, 2020).

During the pendency of the federal court action, Plaintiffs voluntarily stayed the state court action. Stipulation and Order to Stay at 1-4 (Oct. 1, 2019); Stipulation and Order to Stay Case Management Conference at 1-5 (Feb. 10, 2020); Joint Case Management Conference Statement at 1-10 (Oct. 20, 2020). But once the federal district court dismissed that parallel action, Plaintiffs immediately sought discovery in the state court action even though their complaint had not yet survived a pleading challenge. Joint Case Management Conference Statement at 7-8 (Oct. 20, 2020). Plaintiffs insisted that the Reform Act's discovery-stay provision, Section 77z-1(b)(1), did not apply in state court. *Ibid.* Petitioners responded that, by its plain terms, the Reform Act's discovery stay applies in both state and federal court, and offered to brief the issue. *Id.* at 8-9. But on October 27, 2020, the trial court summarily denied Petitioners' request for a discovery stay, as well as its offer of briefing. Pet. App. 15a-16a. It also granted Plaintiffs' request for an elongated schedule on Petitioners' demurrer, setting a hearing on it for June 16, 2021. Pet. App. 15a-16a.

Plaintiffs served their first discovery requests a few weeks later. Those requests were as broad and burdensome as they come. Plaintiffs demanded of Pivotal, among other things, "[a]ll documents and communications related to Pivotal's product offerings," "[a]ll documents and communications distributed at, used during, created in connection with, or concerning any meeting involving any Pivotal

management or executives," and "[a]ll documents and communications related to Pivotal's quarterly and annual financial and operational results and forecasts for fiscal years 2018, 2019, and 2020." Stay App. 41a-43a.[3] Plaintiffs served equally broad discovery requests on each of the other 25 Petitioners. Stay App. 48a-61a, 64a-78a.

In the meantime, Petitioners filed a petition for writ of mandate and request for an immediate stay with the California Court of Appeal. Although the trial court had rejected Petitioners' request to provide full briefing, the Court of Appeal denied relief because the challenged ruling was based on "the parties' summary arguments in a case management conference statement" and Petitioners "did not thoroughly present the positions urged in the present petition by way of a stay motion filed in the superior court." Pet. App. 18a. The court also reasoned that "the petition does not persuasively demonstrate" that Petitioners "will suffer cognizable irreparable harm absent writ review." Pet. App. 18a.

In accordance with the Court of Appeal's order, Petitioners then filed a formal motion to stay discovery in the trial court. After the parties thoroughly briefed whether the Reform Act's discovery stay applies in state court, the trial court denied the motion and allowed discovery to go forward on March 4, 2021. Pet. App. 1a-12a.

While acknowledging that Section 77z-1(b)(1) expressly states it applies to "any private action arising under" the Securities Act, the trial court

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[3] Citations to "Stay App." refer to the appendix to Petitioners' stay application, filed concurrently with this petition.

believed the provision's lack of an express reference to state courts precluded its application in those courts. Pet. App. 5a-6a. The court also relied on distinct subsections of the Reform Act to conclude that the statute "is replete with procedural devices and associated federal nomenclature." Pet. App. 7a. And the court believed (Pet. App. 7a-8a) that reading the Reform Act's discovery-stay provision to apply in state court would render redundant a separate provision of the subsequently enacted Securities Litigation Uniform Standards Act of 1998 ("SLUSA") that allows a court in certain actions to stay discovery "in any private action in a State court." 15 U.S.C. § 77z-1(b)(4). The court thus rejected (Pet. App. 7a-8a) Petitioners' contention that, because the SLUSA provision has broader applicability than Section 77z-1(b)(1), it would not be rendered superfluous.

In addition, the trial court concluded that limiting Section 77z-1(b)(1)'s discovery stay to federal court was consistent with the provision's "procedural nature." Pet. App 9a. The court appeared to read this Court's decision in *Cyan* to require an assessment of whether a given Reform Act provision is "procedural" or "substantive" when determining if the provision applies in state court. Pet. App. 9a-10a. Pointing to the minutes of the Civil Rules Advisory Committee (and not any congressional materials), the trial court declared that the Reform Act's legislative history supported the conclusion that Section 77z-1(b)(1) is "procedural" and therefore inapplicable in state court. Pet. App. 10a-12a.

Petitioners sought a writ of mandate and accompanying stay from the California Court of Appeal. Stay App. 111a-168a. The Court of Appeal

summarily denied relief without a written opinion on March 22, 2021. Pet. App. 13a. Petitioners then petitioned the California Supreme Court for review, and asked for an immediate stay of the trial court's order permitting discovery. On April 14, 2021, the California Supreme Court also summarily denied relief without written opinion. Pet. App. 14a.

Plaintiffs are now pressing forward with their expansive and burdensome discovery requests before the trial court has determined that their complaint even states a claim. They seek to require Petitioners to implement costly forensic collection, processing, and hosting of electronically stored information, as well as manual review of potentially hundreds of thousands of documents for responsiveness and privilege. They have also served special written interrogatories that cast an equally wide net.

Petitioners have filed an application with this Court seeking a stay of the trial court's order allowing discovery pending disposition of this petition.

REASONS FOR GRANTING THE PETITION

I. STATE COURTS ARE SHARPLY DIVIDED OVER WHETHER THE REFORM ACT'S DISCOVERY STAY APPLIES TO THEM

State trial courts nationwide have sharply divided over whether the Reform Act's discovery stay applies to them. These courts are the only courts likely ever to address the issue, which arises during a limited portion of any case and is not reviewable after final judgment. It thus consistently evades appellate review. And litigants continue to confront trial courts with the entrenched split of authority, which they are left to navigate without appellate guidance. *See, e.g., In re Greensky, Inc. Sec. Litig.*, No. 655626/2018, 2019

WL 6310525, at *1 (N.Y. Sup. Ct. Nov. 25, 2019) ("Courts, even in this County, are split on whether the stay set forth in the Private Securities Litigation Reform Act of 1995 (the PSLRA) necessarily applies to state proceedings.").

Left on their own, many state trial courts—adhering to the plain language of Section 77z-1(b)(1)—have concluded that it applies in both state and federal court. *See City of Livonia Retiree Health and Disability Benefits Plan v. Pitney Bowes Inc.*, No. X08 FST CV 18 6038160 S, 2019 WL 2293924, *4 (Conn. Super. May 15, 2019); *In re Greensky, Inc. Sec. Litig.*, 2019 WL 6310525, at *2; *In re Everquote, Inc. Sec. Litig.*, 106 N.Y.S.3d 828, 828 (N.Y. Sup. Ct. 2019); Order Re Motion to Dismiss Or Stay at 2, *In re Pronai Therapeutics, Inc. Shareholder Litig.*, No. 16CIV02473 (Cal. Super. Ct. Mar. 14, 2018) (attached at Stay App. 169a-171a); Notice of Ruling at 2, *Shores v. Cinergi Pictures Ent., Inc.*, No. BC149861 (Cal. Super. Ct. Sept. 11, 1996) (attached at Stay App. 172a-174a); *Milano v. Auhll*, No. SB 213 476, 1996 WL 33398997, *2 (Cal. Super. Ct., Oct. 2, 1996); *see also* Michael Klausner et al., *State Section 11 Litigation in the Post-Cyan Environment (Despite Sciabacucchi)*, 75 The Business Lawyer 1769, 1773 n.16 (2020) (citing an additional unreported decision, Endorsement on Motion to Stay Discovery, *Carlson v. Ovascience Inc.*, No. 1584CV0308 (Mass. Super. Ct. June 2, 2016), as enforcing the stay provision).

These courts have correctly recognized that Section 77z-1(b)(1) "is not ambiguous and that its plain meaning compels the conclusion that the statute, providing for a stay of discovery during the pendency of a motion to dismiss, applies to actions

commenced in state court under the Securities Act, as well as such actions commenced in federal court." *City of Livonia*, 2019 WL 2293924, at *4. They have also recognized that "[t]he important purpose underlying enactment of the automatic stay—ensuring that cases have merit at the outset—should not be disregarded merely because a federal cause of action is being prosecuted in state court." *In re Greensky, Inc. Sec. Litig.*, 2019 WL 6310525 at *2.

But many other courts have reached the opposite conclusion, holding that the discovery-stay provision does not apply in state court. *See In re Dentsply Sirona, Inc.*, No. 155393/2018, 2019 WL 3526142, at *6 (N.Y. Sup. Ct. Aug. 2, 2019); Case Management Order, *Plymouth Cnty. Contributory v. Adams Pharms., Inc.*, No. RG19018715 (Cal. Super. Ct. July 16, 2019) (attached at Stay App. 86a-87a); *In re PPDAI Group Sec. Litig.*, 116 N.Y.S.3d 865, at *6-*7 (N.Y. Sup. Ct. 2019); *Switzer v. W.R. Hambrecht & Co.*, Nos. CGC-18-564904, CGC-18-565324, 2018 WL 4704776, at *1 (Cal. Super. Ct. Sept. 19, 2018); Order Denying Motion to Stay Proceedings, *Buelow v. Alibaba Grp. Holdings Ltd.*, No. CIV535692 (Cal. Super. Ct. April 1, 2016) (attached at Stay App. 89a-92a); *In re Pacific Biosciences of Cal. Inc.*, No. CIV509210, 2012 WL 1932469 (Cal. Super. Ct. May 25, 2012); *see also* Klausner et al., *State Section 11 Litigation*, *supra*, at 1773 n.16 (citing two additional unreported decisions, *Beaver Cnty. Emps. Ret. Fund v. VHCP Mgmt., LLC,* No. CIV536488 (Cal. Super. Ct. Dec. 7, 2015) and *Geller v. Morris*, No. CIV537300 (Cal. Super. Ct. Feb. 26, 2016), as refusing to enforce the stay provision). Four additional unreported cases were submitted to the trial court by Plaintiffs as coming down on their side

of this divide. Stay App. 83a, 93a-110a (attaching decisions).

Some courts have refused to apply the discovery-stay provision because they believed that applying it to "state court actions would undermine *Cyan*'s holding that [Securities Act] cases can proceed in state courts." *In re Dentsply Sirona, Inc.*, 2019 WL 3526142, at *6. Others have reasoned that the "provision for a discovery stay is of a procedural nature, and therefore only applies to actions filed in federal court, not state court." *Switzer*, 2018 WL 4704776, at *1.

The trial court's decision here repeats much of this mistaken reasoning and only deepens this conflict, which extends well beyond the reported decisions cited here. Disputes on this issue tend to go unreported and state court orders of this nature are often electronically unavailable or otherwise uncollectible. *See, e.g., City of Livonia,* 2019 WL 2293924, at *5 n.2 (noting existence of "unreported decisions" "reach[ing] contrary decisions"). And because the vast majority of state securities class actions are filed in either New York or California, the mounting disagreement within the courts of those states means that the lion's share of state court securities litigation is conducted under a cloud of uncertainty about what law will apply. *See* Klausner et al., *State Section 11 Litigation*, *supra*, at 1774-75 (since *Cyan*, 73% of state court Securities Act filings relating to registration statements have been in those two jurisdictions).

In *Cyan*, this Court granted certiorari in similar circumstances to clarify another question of statutory interpretation that had divided trial courts nationwide. 138 S. Ct. at 1068-69. There, the

question was the meaning of the Securities Act's grant of concurrent jurisdiction over Securities Act claims, an issue that only one appellate court, an intermediate state appellate court, had ever addressed. *Id.* at 1069 n.1. But state trial courts and federal district courts had reached divergent conclusions, and further appellate decisions were unlikely. And there, as here, a California trial court had further deepened the split on the question, and the California Court of Appeal and the California Supreme Court had summarily refused to intervene. *Id.* at 1068. Recognizing the importance of ensuring the consistent application of the federal securities laws, this Court granted review. *Id.* at 1069.

The relevant circumstances are the same here. Without this Court's review, the conflict among state trial courts on this question of federal law will persist because the issue, by its nature, evades appellate review. No federal appellate court will ever address this question, as it arises only in state court. And the likelihood a state appellate court will consider the issue is even lower than it was in *Cyan*. Although a defendant might have conceivably raised the jurisdictional issue in *Cyan* on appeal from a state court's final judgment, a defendant could never demonstrate that violation of the Reform Act's discovery stay affected a judgment against it, thus rendering appellate relief impossible. *E.g.*, CAL. CONST., art. VI, § 13 (imposing strict rule of harmless error review for all judgments); N.Y. C.P.L.R. § 2002 (same). That, of course, is assuming that such a suit would ever progress to final judgment in the first place: the vast majority of Securities Act cases that survive a motion to dismiss settle. *See* Michael Klausner et al., *When Are Securities Class Actions*

Dismissed, When Do They Settle, and For How Much? An Update, PLUS Journal, April 2013, at 1, 2.

As a result of all this, the only means for appellate consideration of the Reform Act's discovery stay is a discretionary petition for interlocutory review to a state appellate court—sought during the relatively short pleadings stage of the litigation. But as this case demonstrates, not even that path is viable as a practical matter. Indeed, in the more than 25 years since the Reform Act was enacted, not a single state appellate court has considered whether the statute's discovery stay applies in state court. It is time for this Court to step in.

II. THE STATE COURT'S DECISION IS WRONG

Every tool of statutory construction shows that the Reform Act's discovery stay applies in both state and federal court. The trial court's contrary conclusion was wrong.

A. Statutory Text, Context, And Purpose Show That "Any" Action Means "*Any*" Action

1. "[I]n interpreting a statute a court should always turn first to one, cardinal canon before all others." *Conn. Nat'l Bank v. Germain*, 503 U.S. 249, 253 (1992). This cardinal canon instructs courts to "presume that a legislature says in a statute what it means and means in a statute what it says there." *Id.* at 253-54. "When the words of a statute are unambiguous, then, this first canon is also the last: 'judicial inquiry is complete.'" *Id.* at 254 (citation omitted).

The discovery-stay provision's language is unambiguous: it governs in state as well as federal courts. The provision applies "[i]n *any private action*

arising under this subchapter"—the Securities Act. 15 U.S.C. § 77z-1(b)(1) (emphasis added). As shown by its use of "arising under," the provision's scope is defined by subject matter, not venue. *See Atl. Richfield*, 140 S. Ct. at 1350 ("In the mine run of cases, '[a] suit arises under the law that creates the cause of action.'") (citation omitted). By its terms, the provision applies in "any"—that means, *any*—action asserting Securities Act claims.

A Securities Act suit in state court is just as much a "private action arising under" the Securities Act as a Securities Act suit in federal court. The discovery-stay provision thus applies in both. Here, because the trial court has not yet ruled on the sufficiency of the complaint, the Reform Act's mandate is clear: "all discovery and other proceedings shall be stayed." 15 U.S.C. § 77z-1(b)(1).

2. Surrounding provisions of the Reform Act confirm the discovery stay's application to state court. In contrast to Section 77z-1(b)'s discovery-stay provision, the immediately preceding statutory subsection, Section 77z-1(a), limits its requirements to "each private action arising under this subchapter that is brought as a plaintiff *class action pursuant to the Federal Rules of Civil Procedure*." 15 U.S.C. § 77z-1(a) (emphasis added) (establishing requirements for, among other things, the appointment of lead plaintiffs and class notice). Thus, unlike subsection (b), subsection (a) does not apply to all actions "arising under" the Securities Act, but rather the *subset* of those Securities Act actions brought as class actions in federal court. "[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts

intentionally and purposely in the disparate inclusion or exclusion.'" *Russello v. United States*, 464 U.S. 16, 23 (1983). Just so here: if Congress had meant to stay discovery only in actions governed by the federal rules, it would have said so.

This Court's decision in *Cyan* fortifies this plain-text reading. There, referring to suits under the Securities Act, the Court noted that some provisions of the Reform Act "appl[y] only when such a suit was brought in federal court." *Cyan*, 138 S. Ct. at 1066-67. As an example, the Court cited a sub-provision contained in Section 77z-1(a), which (as the Court observed) applies "in any class action brought under the Federal Rules of Civil Procedure." *Id.* at 1067. By contrast, the Court explained, some of the Reform Act's provisions "appl[y] even when a [Securities] Act suit [is] brought in state court." *Id.* at 1066. As an example, the Court cited Section 77z-2, the Reform Act's "safe harbor" for forward-looking statements. *Id.* at 1066, 1072. Using language identical to that in Section 77z-1(b)'s discovery stay, Section 77z-2 governs "any private action arising under this subchapter." 15 U.S.C. § 77z-2(c)(1), (f). "Generally, identical words used in different parts of the same statute are * * * presumed to have the same meaning." *Robers v. United States*, 572 U.S. 639, 643 (2014) (internal quotation marks omitted). Just as the Reform Act's safe harbor applies in state court, so too does its discovery stay.

3. The purpose and historical context of the Reform Act reinforce the discovery stay's application to state courts. In the years preceding the Reform Act, plaintiffs had used the Securities Act to extract settlements from deep-pocketed defendants. *Merrill Lynch, Pierce, Fenner & Smith Inc.,* 547 U.S. at 81. In

passing the Reform Act, Congress was thus concerned that securities plaintiffs might "abuse * * * the discovery process to impose costs so burdensome that it is often economical for the victimized party to settle." H.R. CONF. REP. NO. 104-369, at 31 (1995). Congress also sought to prevent plaintiffs from "fil[ing] frivolous lawsuits in order to conduct discovery in the hopes of finding a sustainable claim not alleged in the complaint." S. REP. NO. 104-98, at 14 (1995).

These concerns apply equally to state and federal court actions. There is thus no reason to think that Congress would have intended the discovery stay to apply in one forum but not the other. Instead, Congress intended Section 77z-1(b) to do what it says: stay "all discovery and other proceedings" in Securities Act actions (15 U.S.C. § 77z-1(b)), no matter the court where the defendants find themselves.

B. The State Court's Atextual Reading Of The Stay Provision Is Wrong

The trial court's reasons for reaching the opposite conclusion do not withstand scrutiny.

1. The trial court emphasized that Section 77z-1(b) contains no "reference to state courts." Pet. App. 6a. But such a "reference" would be superfluous given the provision's express application to "any private action." 15 U.S.C. § 77z-1(b)(1). "The word 'any' has an expansive meaning, that is, 'one or some indiscriminately of whatever kind.'" *United States v. Gonzales*, 520 U.S. 1, 5 (1997). It is unnecessary to use the words "state court," because the word "any" "means what it says." *Ibid.* (internal quotation marks omitted).

This Court's cases make clear that Congress was not required to specifically mention state courts for the discovery-stay provision to apply there. In *Collector of Internal Revenue v. Hubbard*, for example, the Court found it "quite clear" that a statute prohibiting the filing of suits "*in any court*" "includes the State courts as well as the Federal courts." 79 U.S. (12 Wall.) 1, 15 (1870) (emphasis in original). Similarly, in *Gonzales*, the Court held that "any other term of imprisonment" includes "those imposed by state courts," as well as federal courts, because "'any other term of imprisonment' 'means what it says.'" 520 U.S. at 5.

And the lack of reference to "state court" in the discovery-stay provision is unsurprising, as the provision's focus is the type of "action," not the forum in which that action is litigated. The discovery-stay provision makes no mention of "federal court" either. That is in contrast to other provisions the trial court cited, which reference the courts and other venues to which they apply because they are not limited to any particular type of action. *See* Pet. App. 6a (discussing Section 77z-1(a)(7)(B)(iii), which limits the admissibility of certain required disclosures "in any Federal or State judicial action or administrative proceeding"). And again, when the Court in *Cyan* considered a provision that, like the discovery stay, applies to "any private action arising under this subchapter," the Court concluded that provision necessarily "applie[s] even when a [Securities] Act suit was brought in state court." *Cyan*, 138 S. Ct. at 1066 (discussing 15 U.S.C. § 77z-2).

2. The trial court, citing provisions other than Section 77z-1(b), declared that the Reform Act "consistently limits its procedural provisions to

action[s] under the Federal Rules of Civil Procedure and is replete with procedural devices and associated federal nomenclature." Pet. App. 7a. That some Reform Act provisions are limited to federal court does not mean that the discovery-stay provision is as well. *See Cyan*, 138 S. Ct. at 1066-67, 1072 (explaining that some Reform Act provisions apply in state court while others do not). Just the opposite—the fact that other Reform Act provisions are expressly limited to federal court makes clear that the discovery stay, which contains no such language, is not. Congress knew how to limit the Reform Act's provisions to federal court when it wanted to. *See Russello*, 464 U.S. at 23.

3. The trial court asserted that reading the Reform Act's discovery stay to apply in state court would render Section 77z-1(b)(4) "redundant." Pet. App. 7a-8a. Congress added the referenced provision as part of SLUSA, three years after the Reform Act. It provides that "a court may stay discovery proceedings in any private action in a State court as necessary in aid of its jurisdiction, or to protect or effectuate its judgments, in an action subject to a stay of discovery pursuant to this subsection." 15 U.S.C. § 77z-1(b)(4). Contrary to the trial court's conclusion, this provision would not have been superfluous if the Reform Act's discovery stay already applied in state courts. While the Reform Act's discovery stay applies only in actions arising under the Securities Act, the SLUSA stay provision applies to "any private action in a State court," including those cases, for example, that do not arise under the Securities Act because they involve only state-law claims. *Ibid.*; *see, e.g., In re DPL Inc., Sec. Litig.* 247 F.Supp.2d 946, 948-50 (S.D. Ohio 2003) (noting that this SLUSA provision applies to "discovery in '*any private action*' pending in

state court" and staying discovery in parallel state court action raising claims under state law (emphasis in original)). The SLUSA stay provision would also apply where the Reform Act's discovery stay has either expired or not been enforced.

4. The trial court concluded that the Reform Act's discovery stay applies only in federal court because it is "of [a] procedural nature" and is not "substantive." Pet. App. 9a-10a. But even assuming the discovery-stay provision should be characterized as "procedural," nothing precludes Congress from applying "procedural" requirements in state courts. In particular, Congress may require state courts to adjudicate federal claims and to use some federal procedures when doing so. *See Testa v. Katt*, 330 U.S. 386, 392-94 (1947) (Supremacy Clause requires state courts to enforce federal claims over which they have concurrent jurisdiction); *Dice v. Akron, Canton & Youngstown R. Co.*, 342 U.S. 359, 363 (1952) (holding that the statutory right to a jury trial in actions under the Federal Employers' Liability Act applies in Ohio state court despite a state procedural rule requiring that certain factual questions be decided by the court). Here, the federal statute so provides—the Reform Act expressly applies its discovery stay to "*any* private action." 15 U.S.C. § 77z-1(b)(1) (emphasis added.)

Nothing in *Cyan* undermines that conclusion. *Contra* Pet. App. 9a-10a. To be sure, *Cyan* characterized some of the Reform Act provisions that are expressly limited to federal court as "procedural," and others that were not so limited as "substantive." *Cyan*, 138 S. Ct. at 1066, 1072. But it nowhere suggested that deciding whether a particular Reform Act provision applies in state court depends on some

Erie-like analysis of whether that provision is "substantive" or "procedural." *Cf. Gasperini v. Ctr. for Humanities, Inc.*, 518 U.S. 415, 427 (1996) ("[c]lassification of a law as 'substantive' or 'procedural'" can be "a challenging endeavor"). Rather, the question turns on Congress's intent—which is best illustrated by the plain language of the statutory text, not some amorphous distinction between substance and procedure. *CSX Transp., Inc. v. Easterwood*, 507 U.S. 658, 664 (1993).

And as *Cyan* itself made clear, when Congress stated in the Reform Act that a provision governed "any private action arising under" the Securities Act, it intended that provision to apply in state court even if it could be deemed "procedural." *See Cyan*, 138 S. Ct. at 1066, 1072. Indeed, the safe harbor provision that *Cyan* described as substantive and as applying in state court has its own discovery stay, which provides that "[i]n any private action arising under this subchapter, the court shall stay discovery" (with certain exceptions) "during the pendency of any motion by a defendant for summary judgment that is based on the grounds that" the complaint challenges statements falling within the safe harbor. 15 U.S.C. § 77z-2(f).

5. The purported "legislative history" on which the trial court relied provides no support for its atextual reading. Pet. App. 10a-12a. To start, the materials the trial court cited are not "legislative history" at all, but rather the minutes and materials of the Advisory Committee on Civil Rules, a body entirely distinct from Congress. *See* Advisory Committee on Civil Rules, *Minutes* 1-31 (Apr. 28-29, 1994). They provide no indication of Congress's intent. But even if the cited materials were relevant,

they merely characterized the discovery stay as "procedural." The statutory text governs here, and nowhere does it say that a provision someone might characterize as "procedural" vanishes when a plaintiff files suit in in state court. *See* 15 U.S.C. § 77z-1(b).

III. THIS FEDERAL STATUTORY QUESTION IS IMPORTANT AND THIS CASE IS AN IDEAL VEHICLE TO ANSWER IT

This issue is of critical importance to securities litigation. After *Cyan* confirmed in 2018 that Congress intended to permit state courts to retain jurisdiction over Securities Act claims, the number of Securities Act cases filed in state courts multiplied. *See* Klausner et al., *State Section 11 Litigation*, *supra*, at 1775. And these state court cases are far more likely to lack merit than their federal counterparts. *See id.* at 1782 ("the leniency of state court rules appears to have attracted cases to state court that are weaker than those brought in federal court"). The consequences of the continued uncertainty about the application of the Reform Act's discovery stay in state court are thus increasingly significant.

That is all the more true because the costs of each individual suit, and not just the total number of suits, are likewise increasing. Cases filed in recent years "threaten much higher litigation and settlement costs than cases filed in prior years—nearly three times larger than the average for 1997 to 2017." U.S. Chamber Institute for Legal Reform, *Containing the Contagion: Proposals to Reform the Broken Securities Class Action System* 2 (Feb. 2019). Indeed, the cost of discovery in these cases is routinely in the millions of dollars.

And while companies that issue securities are subjected to individual suits, the investment banks that underwrite securities offerings are subjected to repeated suits. Here, for example, the Underwriter Petitioners estimate that, in just the three years since *Cyan*, they cumulatively have been named as defendants in individual and consolidated actions under the Securities Act in state court at least 287 times—or, counting the number of complaints filed within each individual and consolidated action, cumulatively at least 640 times. *See* Stay App. 175a-219a (listing docket entries of representative post-*Cyan* Securities Act suits filed against Underwriter Petitioners in state courts nationwide). Four of the Underwriter Petitioners have faced more than thirty-five such individual or consolidated actions; two have faced between twenty and thirty; and five have faced between ten and twenty. *Ibid.*

The increased costs associated with securities litigation have significant consequences. Securities Act defendants are coerced into settling meritless claims. *See* Klausner et al., *State Section 11 Litigation*, *supra*, at 1781-82. Premiums for directors' and officers' liability insurance have skyrocketed. *See* Carl E. Metzger & Brian H. Mukherjee, *Challenging Times: The Hardening D&O Insurance Market*, Harvard Law School Forum on Corporate Governance (Jan. 29, 2020). And companies with greater exposure to securities litigation have been forced to hold significantly more cash on hand while reducing capital expenditures. Matteo Arena & Brandon Julio, *The Effects of Securities Class Action Litigation on Corporate Liquidity and Investment Policy*, 50 J. Fin. & Quantitative Analysis 251, 272-73 (2015). Some U.S. companies may avoid going public altogether,

depriving the public of valuable investment opportunities. *See* Michael Wusterhorn & Gregory Zuckerman, *Fewer Listed Companies: Is that Good or Bad for Stock Markets?* WALL STREET JOURNAL (Jan. 4, 2018). If Securities Act plaintiffs can evade the Reform Act's discovery limitations merely by filing suit in state court, the costs of such litigation—and the adverse consequences that result—will only increase.

Congress enacted Section 77z-1(b)(1) to address these negative consequences. As explained, in passing the Reform Act, Congress sought to eliminate the sort of burdensome discovery costs that might coerce defendants to settle. *Supra* pp. 18-19. The Conference Report expressly noted that by some estimates, "discovery costs account for roughly 80% of total litigation costs in securities fraud cases" and that "the threat that the time of key employees will be spent responding to discovery requests, including providing deposition testimony, often forces coercive settlements." H.R. CONF. REP. NO. 104-369, at 37 (1995); *see Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 741 (1975) (recognizing similar concerns associated with the high costs of discovery in securities cases). Section 77z-1(b)(1) was thus designed "to prevent unnecessary imposition of discovery costs on defendants" and to ensure that plaintiffs were not using discovery as a fishing expedition on the slim hope of finding some viable claim. H.R. CONF. REP. NO. 104-369, at 32; S. REP. NO. 104-98, at 14 (1995). Allowing such discovery to proceed in state courts subverts those aims.

Finally, this case presents an excellent vehicle for the Court to address this question. The parties fully briefed the application of the Reform Act's discovery

stay before the trial court. Unlike many other trial courts, the court here issued a written decision explaining its ruling. And the issue presented will remain reviewable no matter how the trial court rules on Petitioners' pending demurrer. If the trial court grants Petitioners' demurrer with leave to amend, that likely would be followed by another demurrer, during the pendency of which the trial court would continue to allow Plaintiffs to take discovery barred by the Reform Act. Even if Petitioners' demurrer is resolved without leave to amend, this Court should still answer the question presented: the issue is "capable of repetition, yet evading review" as it necessarily arises during a brief period at the outset of litigation and these Petitioners are repeatedly subjected to state-court Securities Act claims. *Kingdomware Techs., Inc. v. United States*, 136 S. Ct. 1969, 1976 (2016); *see* Stay App. 175a-219a. If anything, the brief litigation window in which this issue arises and the practical difficulty of securing any appellate review of the question counsel in favor of granting review here.

* * *

In sum, state trial courts are sharply divided on an important question of federal law. Many have adopted an atextual reading of a federal statute that defeats Congress's purpose of reducing the costs associated with securities litigation and minimizing coercive settlements of baseless claims. Given the absence of any viable path for appellate review of this question, there is no reason to await further percolation. This petition provides the Court with the opportunity to clarify this issue and restore the statutory scheme Congress intended.

CONCLUSION

The petition for a writ of certiorari should be granted.

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