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WLF Asks Supreme Court to Clarify Congressional Intent Behind PSLRA's Safe Harbor

(Quality Systems, Inc. v. City of Miami Retirement Trust)

“The Ninth Circuit’s watered-down construction of the PSLRA’s Safe Harbor, if allowed to stand, will inject greater uncertainty into federal securities law and deter companies from disclosing earnings projections and other useful information about future prospects.”

—Cory Andrews, WLF Senior Litigation Counsel

WASHINGTON, DC—Washington Legal Foundation yesterday urged the U.S. Supreme Court to review, and ultimately reverse, a decision of the U.S. Court of Appeals for the Ninth Circuit that would allow securities plaintiffs to proceed to discovery for claims that Congress never intended to survive the pleading stage.

The case arises from a putative securities class action in which the plaintiffs allege that Quality Systems, Inc. (QSI), a developer of electronic records software for medical providers, made false or misleading statements about the company’s economic performance in violation of § 10(b) of the Securities Exchange Act. Most of the challenged statements were forward-looking projections of QSI’s financial performance for the 2012 and 2013 fiscal years.

The trial court granted QSI’s motion to dismiss the action, concluding that the company’s forward-looking statements were accompanied by meaningful cautionary language and thus protected under the “Safe Harbor” of the Private Securities Litigation Reform Act (PSLRA). The Ninth Circuit subsequently reversed that decision, prompting WLF to support QSI’s petition for *certiorari*, which asks the Supreme Court to provide an unambiguous, objective, and workable standard for applying the Safe Harbor that is consistent with the congressional intent behind it.

WLF’s brief demonstrates that, in creating the Safe Harbor, Congress made a determination that incentivizing companies to provide forward-looking information—qualified by meaningful cautions—outweighed any risk that companies would commit deliberate fraud in doing so. WLF encourages the Supreme Court to grant review and vindicate Congress’s judgment.

WLF further argues that, consistent with congressional intent, the Court must construe the Safe Harbor’s cautionary-language prong as an objective standard without inquiring into the speaker’s subjective state of mind. Such a standard would determine the meaningfulness and importance of cautionary language by examining the full content and quality of that language alone, providing clear guidance for companies to follow.

Douglas Greene, Chardaie Charlemagne, Jessie Gabriel, Tiffany Miao, and Thomas Warren of Baker Hostetler LLP provided invaluable *pro bono* assistance to WLF in filing its *amicus* brief.

Celebrating its 41st year as America’s premier public-interest law firm and policy center, WLF advocates for free-market principles, limited government, individual liberty, and the rule of law.