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IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF ARIZONA

In re Apollo Group, Inc. Securities  
Litigation,

Master File No. CV 04-2147-PHX-JAT  
(LEAD)

CV 04-2204-PHX-JAT (Consolidated)  
CV 04-2334-PHX-JAT(Consolidated)

This Document Relates To: All Actions

CLASS ACTION

**ORDER**

This securities-fraud class action centers around a Department of Education (“DOE”) program review at the University of Phoenix (“UOP”), a wholly-owned subsidiary of Apollo Group, Inc., that began in August 2003 and ended by settlement agreement on September 7, 2004. The Policemen’s Annuity and Benefit Fund of Chicago (“PABF”), representing a class of persons who purchased Apollo stock between February 27, 2004 and September 14, 2004, claimed that Apollo and two of its individual officers made false or misleading statements concerning the status of this program review, and that these misrepresentations caused certain investors to suffer economic loss after the truth was fully disclosed to the market by way of two analyst reports (the “Flynn reports”) on September 20, 2004. At trial, the Court instructed the jury that loss causation, an essential element of PABF’s securities-fraud claim, could be found only if the Flynn reports were “corrective disclosures. The jury found for PABF.

Apollo and its individual officers now move for judgment as a matter of law under Federal Rule of Civil Procedure 50(b) and, alternatively, for a new trial under Rule 59. The

1 dispositive question presented in the Rule 50(b) motion is whether the evidence at trial was  
2 sufficient to support the jury's finding that the Flynn reports were corrective disclosures.  
3 The Court finds that it was not, and will therefore grant the Rule 50(b) motion.

#### 4 **I. Background**

5 The Court recites the facts relevant to this motion consistent with the jury verdict.

6 On February 5, 2004, as part of its ongoing program review at the UOP, the DOE sent  
7 Apollo a program review report that preliminarily found that the UOP had violated DOE  
8 regulations. Apollo was not required to immediately disclose the report, and it chose not to  
9 do so. But on six different occasions thereafter, between February 27, 2004 and September  
10 7, 2004, Apollo misrepresented the actual state of affairs surrounding the program review by  
11 making public statements at odds with the existence and contents of the DOE report. On  
12 September 14 and 15, 2004, the contents of the DOE report were widely disseminated for the  
13 first time through various newspapers articles, including articles in *The Wall Street Journal*,  
14 *The Arizona Republic*, and the *Chicago Tribune*. The market did not react to the disclosure  
15 of this news in any significant way. Five days later, the Flynn reports were issued. These  
16 reports downgraded Apollo's stock for various reasons, some of which PABF argued at trial  
17 were necessary to reveal the truth of Apollo's prior misrepresentations. Apollo's stock price  
18 fell significantly thereafter.

#### 19 **II. Discussion**

##### 20 *A. Motion for Judgment as a Matter of Law*

21 The Ninth Circuit has articulated the applicable "standard of review for post-verdict  
22 motions for judgment as a matter of law ('JMOL') as follows:

23 The trial court can overturn the jury and grant such a motion only if, under  
24 the governing law, there can be but one reasonable conclusion as to the  
25 verdict. In other words, the motion should be granted only if there is no  
26 legally sufficient basis for a reasonable jury to find for that party on that issue.  
27 In ruling on a motion for JMOL, the court is not to make credibility  
28 determinations or weigh the evidence and should view all inferences in the  
light most favorable to the nonmoving party. The court must accept the jury's  
credibility findings consistent with the verdict. It must disregard all evidence  
favorable to the moving party that the jury is not required to believe. The

1 court may not substitute its view of the evidence for that of the jury.  
2 *Winarto v. Toshiba Am. Elecs. Components, Inc.*, 274 F.3d 1276, 1283 (9th Cir. 2001)  
3 (internal citations and quotations omitted).

4 To recover for securities fraud under Section 10(b) of the Securities Exchange Act of  
5 1934 and Rule 10b-5 promulgated thereunder, a plaintiff must establish “‘loss causation,’ *i.e.*,  
6 a causal connection between the material misrepresentation and the loss. *Dura Pharms.,*  
7 *Inc. v. Broudo*, 544 U.S. 336, 342 (2005). One way in which the plaintiff can prove this  
8 element is by showing that a corrective disclosure caused the stock price to decline.<sup>1</sup> *Metzler*  
9 *Inv. GMBH v. Corinthian Colls., Inc.*, \_\_\_ F.3d \_\_\_, No. 06-55826, at 9267 (9th Cir. July 25,  
10 2008) (stating that the market must “learn[] of and react[] to [the] fraud ”); *In re Daou Sys.,*  
11 *Inc.*, 411 F.3d 1006, 1026 (9th Cir. 2005); *Lentell v. Merrill Lynch & Co., Inc.*, 396 F.3d 161,  
12 175 (2d Cir. 2005); *Omnicom Group, Inc. Sec. Litig.*, 541 F. Supp. 2d 546, 551 (S.D.N.Y.  
13 2008). A “corrective disclosure is a disclosure that reveals the fraud, or at least some aspect  
14 of the fraud, to the market. *See Lentell*, 396 F.3d at 175 n.4 (holding that, to be corrective,  
15 a disclosure must “reveal to the market the falsity of the prior [representations]); *Omnicom*,  
16 541 F. Supp. 2d at 551 (stating that “a disclosure need not reflect every detail of the alleged  
17 fraud but “must reveal some aspect of it ). A disclosure that does not reveal anything new  
18 to the market is, by definition, not corrective. *Omnicom*, 541 F. Supp. 2d at 551.

19 At trial, as at summary judgment, PABF’s loss-causation theory, as articulated by its  
20 expert witness, Dr. Steven P. Feinstein, depended entirely on the jury finding the Flynn

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22 <sup>1</sup> Isolating the effect of a corrective disclosure on a stock price requires expert testimony.  
23 The tool most often used by experts to isolate the effect of a corrective disclosure on a stock  
24 price is the “event study. *In re Apollo Group, Inc. Sec. Litig.*, 509 F. Supp. 2d 837, 844 (D.  
25 Ariz. 2007) (citing *In re Imperial Credit Indus., Inc.*, 252 F. Supp. 2d 1005, 1014 (C.D. Cal.  
26 2003)). In grossly oversimplified terms, the event study enables an expert to pinpoint any  
27 decline in the stock price attributable to market factors unrelated to the corrective disclosure.  
28 Once this is accomplished, if a statistically significant price decline remains, then the expert  
can be reasonably certain that the corrective disclosure, and thus the fraud, caused that  
remaining decline.

1 reports to be corrective disclosures. Apollo argues that the evidence was insufficient to  
2 support such a finding for two independent reasons.

3 First, Apollo contends that a market analyst’s opinion—which is all the Flynn reports  
4 were—is not, and never can be, a “corrective disclosure. Apollo maintains that, to be  
5 corrective, a disclosure must reveal *facts* that are necessary to correct the falsity of prior  
6 misstatements or omissions, as opposed to simply *analyzing* previously disclosed facts. The  
7 Court considered and rejected this argument at summary judgment, stating:

8 In order to grant summary judgment to Defendants on this issue, the Court  
9 would have to conclude as a matter of law that a market professional’s analysis  
10 of facts that had been previously disclosed to the investing public can *never* be  
a corrective disclosure. Defendants have not cited, and this Court has not  
found, any case that supports this proposition.

11 *In re Apollo Group, Inc. Sec. Litig.*, 509 F. Supp. 2d at 846 (emphasis added). Although it  
12 appears that at least one district court has since concluded otherwise, see *Omnicom*, 541 F.  
13 Supp. 2d at 552, the Court will not retreat from its prior holding. To do so, and hold  
14 otherwise, would give companies the perverse incentive to indulge in opaque, piecemeal  
15 disclosures, specially designed to avoid any market reaction to the news. See *In re Merck*  
16 *& Co., Inc. Sec. Litig.*, 432 F.3d 261, 271 (3d Cir. 2005) (declining to hold that analysis of  
17 previously disclosed facts can never be a corrective disclosure because the court did not  
18 “wish to reward opaqueness ). This Court has no desire to encourage corporate  
19 gamesmanship of this kind.

20 With that said, the Court’s rejection of Apollo’s rigid, facts-only approach to  
21 corrective disclosures is not to deny that the typical securities fraud will be fully revealed  
22 through the disclosure of facts, without the need for any subsequent analysis. As the *Merck*  
23 court stated, “An efficient market for good news is an efficient market for bad news. 432  
24 F.3d at 271. The situations in which the pertinent facts are obfuscated in such a way, or are  
25 of such complexity, as to require someone to connect the dots for a bewildered market  
26 represent a very rare type of securities-fraud case, and would not be the rule. The Court’s  
27 position simply recognizes that an efficient market is not necessarily an omniscient one.

1           Second, Apollo contends that, even accepting the premise that analysis of existing  
2 facts may sometimes be necessary to reveal a fraud to the market, the Flynn reports were not  
3 necessary to reveal the fraud in this case because they did not provide any new, fraud-  
4 revealing analysis. The Court agrees. At trial, there were only three aspects of the Flynn  
5 reports that PABF contended were corrective,<sup>2</sup> and the evidence was insufficient to show that  
6 any one of these aspects was in fact corrective.

7           First, PABF claimed that the Flynn reports were the first to predict future regulatory  
8 problems as a result of the previously disclosed contents of the DOE report. This claim,  
9 however, was demonstrably false, as evidenced in particular by a *Chicago Tribune* article  
10 entitled “School Fine May Foretell Crackdown, published five days before the Flynn reports  
11 were issued. [Tr. Ex. 14083-R (Doc. # 559).] That article—in the context of discussing the  
12 DOE’s investigation of the UOP, the findings of wrongdoing contained in the DOE report,  
13 and the subsequent “record fine that resulted—reported that “leading industry executives  
14 said . . . that investigations may lead to stricter regulatory control of their sector and spark  
15 the interest of Congress. [*Id.*] The article also reported that Todd Nelson himself, Apollo’s  
16 chief executive officer at the time and one of the individual defendants in this lawsuit, “told  
17 an investors conference in New York that [he was] concerned about investigations into for-  
18 profit education companies like the UOP. [*Id.*] Thus, contrary to PABF’s contention at  
19 trial, Flynn was not the first to tie future regulatory problems to the DOE report, and the jury  
20 therefore could not properly conclude that her reports were corrective for this reason.

21           Second, PABF claimed that the Flynn reports revealed for the first time that the UOP  
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23 <sup>2</sup> Actually, PABF only explicitly argued for two corrective aspects to the Flynn reports. [Tr.  
24 4062:20-23 (“[T]he only new information is that she has the report and she’s talked to  
25 enrollment counselors. That’s the only new information. There’s no other information. .).]  
26 But while discussing these two allegedly corrective aspects, PABF also argued that the  
27 reports were corrective because they were the first to tie future regulatory problems to the  
28 DOE report [Tr. 4059:19-4062:5], an argument also made at summary judgment, *In re Apollo  
Group*, 509 F. Supp. 2d at 845.

1 was experiencing increasing turnover among its enrollment counselors as a result of a new  
2 compensation plan. This claim, however, was factually wrong. The uncontradicted evidence  
3 at trial was that enrollment-counselor turnover actually decreased after the implementation  
4 of the new compensation plan. [Tr. 2408:1-2411:5.] As a matter of logic, false information  
5 cannot possibly be corrective information. Moreover, although PABF presented evidence  
6 arguably linking the claim of increasing enrollment-counselor turnover to *the DOE report*,  
7 PABF did not present any evidence linking this claim to *Apollo's misrepresentations*. Thus,  
8 the jury could not properly conclude that the Flynn reports were corrective on this basis.

9 Third, PABF claimed that the Flynn reports were corrective because it was “obvious  
10 from the report[s] that Flynn had “read the [DOE] report. [Tr. 4059:1-2.] But this, of  
11 course, is nonsense. What Flynn did or did not read before issuing her reports is irrelevant.  
12 All that matters is what she actually disclosed to the market in her reports, and PABF has  
13 conceded, as it must, that Flynn did not disclose *any* of the DOE report’s contents in her  
14 reports, much less any new contents.<sup>3</sup> [Tr. 4059:2.]

15 Securities-fraud actions are “available, not to provide investors with broad insurance  
16 against market losses, but to protect them against those economic losses that  
17 misrepresentations actually cause. *Dura*, 544 U.S. at 345; *see also Basic, Inc. v. Levinson*,  
18 485 U.S. 224, 252 (1988) (White, J., concurring in part and dissenting in part) (rejecting an  
19 argument that “would effectively convert Rule 10b-5 into a scheme of investor’s insurance ).  
20 The evidence at trial undercut all bases on which PABF claimed the Flynn reports were  
21 corrective. Thus, although PABF demonstrated that Apollo misled the market in various  
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23 <sup>3</sup> In its opposition to Apollo’s motion for judgment as a matter of law, PABF argues that two  
24 other bits of information disclosed in the Flynn reports were also corrective: (1) Flynn’s  
25 statement that enrollment counselors had reported that enrollment targets were getting harder  
26 to hit; and (2) the fact that the UOP had adopted a new compensation plan. But neither bit  
27 of information was linked in any way to Apollo’s prior misrepresentations. [Tr. 2170:19-  
28 2171:25.] Thus, the jury could not have found the Flynn reports to be corrective on either  
of these bases.

1 ways concerning the DOE program review, PABF failed to prove that Apollo's actions  
2 caused investors to suffer any harm. Therefore, Apollo is entitled to judgment as a matter  
3 of law.

4 *B. Motion for New Trial*

5 Apollo also moved in the alternative for a new trial under Federal Rule of Civil  
6 Procedure 59. The Court is required to conditionally rule on this motion in the event the  
7 appellate court reverses the grant of judgment as a matter of law. See Fed. R. Civ. P.  
8 50(c)(1).

9 Rule 59(a) states that "after a jury trial, a new trial may be granted "for any reason  
10 for which a new trial has heretofore been granted in an action at law in federal court.  
11 Reasons for granting a new trial historically include prejudicial evidentiary rulings, *Dorn v.*  
12 *Burlington N. Santa Fe R.R.*, 397 F.3d 1183, 1189 (9th Cir. 2005), erroneous or inadequate  
13 jury instructions, *Murphy v. City of Long Beach*, 914 F.2d 183, 187 (9th Cir. 1990), attorney  
14 misconduct, *Anheuser-Busch, Inc. v. Natural Beverage Distribs.*, 69 F.3d 337, 346 (9th Cir.  
15 1995), and a verdict that, in the judge's view, is against the clear weight of the evidence (or  
16 constitutes a miscarriage of justice), *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 729 (9th Cir.  
17 2007). Apollo maintains that all of these reasons warrant a new trial in this case.

18 1. Challenged Evidentiary Rulings

19 Apollo asserts three errors in the Court's evidentiary rulings.

20 First, Apollo argues that the Court's exclusion of Kelly Flynn's testimony as to the  
21 meaning of her reports was prejudicial, especially in light of the fact that the Court permitted  
22 PABF's expert witness, Dr. Feinstein, to testify on the same subject. The Court disagrees.  
23 The Flynn reports were admitted as evidence of what the market was told on September 20,  
24 2004. What these reports meant *to the market* could only be gleaned from the words  
25 contained in them. Permitting Flynn to testify as to the meaning of these words would have  
26 invited the jury to determine the meaning of the Flynn reports based on the author's  
27 unspoken thoughts and intentions rather than on the words themselves. The danger of  
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1 confusion and unfair prejudice far outweighed whatever probative value such testimony may  
2 have had. See Fed. R. Evid. 403. Any testimony of the parties' loss-causation experts on the  
3 same subject simply did not present the same danger.

4 Apollo next argues that the Court's refusal to permit Apollo's legal advisors to testify  
5 about the "rationale behind their legal advice was prejudicial error. Again, the Court finds  
6 no error in this evidentiary ruling. Apollo's legal advisors were permitted to testify as to the  
7 advice they actually communicated to Defendant Nelson, as evidence of Nelson's state of  
8 mind. They were also permitted to testify as to their qualifications and the professional  
9 capacity in which they rendered the advice—i.e., as lawyers with the fiduciary duty and  
10 ethical obligation to give their client the best legal advice they can—to establish why Nelson  
11 might have properly relied on their advice. But to allow Apollo's advisors to explain why  
12 they gave particular advice would have permitted these lawyers to offer what would have  
13 amounted to undesignated expert opinion on the governing law of the case, thereby invading  
14 the province of the Court and inviting jury confusion. Moreover, to the extent PABF  
15 attacked the credibility of these legal advisors by attempting to paint them as mere "highly-  
16 paid advocates, Apollo had an adequate opportunity to rehabilitate them by showing that  
17 the lawyers acted in their professional capacity, with all the ethical duties that accompany  
18 it.

19 Finally, Apollo argues that it was prejudicial error to allow Dr. Feinstein to testify  
20 about the *risks* of the DOE report as a proxy for the *materiality* of the report, one of the  
21 ultimate issues in the case. The Court, however, sees a meaningful distinction between, "A  
22 reasonable investor would have considered the DOE report to be material, and, "A  
23 reasonable investor would have considered the DOE report to expose certain risks.  
24 Furthermore, the fact that the Court could have permitted Dr. Feinstein to testify explicitly  
25 concerning the materiality of the report, see Fed. R. Evid. 704(a) (stating that opinion  
26 testimony is generally "not objectionable merely "because it embraces an ultimate issue to  
27 be decided by the trier of fact ), clearly demonstrates that the Court did not err in admitting  
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1 this testimony.

2 2. Jury Instructions

3 Apollo asserts a number of errors and inadequacies in the jury instructions. But after  
4 reviewing the parties' arguments and the jury instructions as a whole, the Court is convinced  
5 that the instructions "fairly and adequately cover[ed] the issues presented, correctly state[d]  
6 the law, and [were] not misleading. *Chuman v. Wright*, 76 F.3d 292, 294 (9th Cir. 1996).  
7 The Court's reasons, as stated on the record, will speak for themselves in this regard.

8 3. Attorney Misconduct

9 Apollo argues that PABF's allegedly repeated references to irrelevant topics and its  
10 alleged use of a "golden rule" argument—asking the jurors to place themselves in the shoes  
11 of the class members—prejudiced its right to a fair trial. "A new trial is warranted on the  
12 ground of attorney misconduct during the trial where 'the flavor of misconduct . . .  
13 sufficiently permeate[s] an entire proceeding to provide conviction that the jury was  
14 influenced by passion and prejudice in reaching its verdict.' *Anheuser-Busch, Inc.*, 69 F.3d  
15 at 346 (quoting *Kehr v. Smith Barney, Harris Upham & Co.*, 736 F.2d 1283, 1286 (9th Cir.  
16 1984)). Although there can be no doubt that PABF succeeded in delving into some irrelevant  
17 matters early in the trial, and to the extent PABF's argument during closing can even  
18 properly be characterized as an improper "golden rule" argument,<sup>4</sup> the Court is not persuaded  
19 that PABF's actions tainted the entire proceeding.

20 4. Miscarriage of Justice

21 Finally, Apollo contends that "[t]he jury in this case returned a verdict that is a  
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23 <sup>4</sup> To determine whether *a reasonable investor* would have viewed the DOE report as  
24 material, PABF's counsel invited the jury members to ask themselves whether *they*  
25 *personally* would have viewed the report as material *if they were going to invest in Apollo*.  
26 [Tr. 4044:8-12 ("Read the [DOE report] and sit down and say to yourself, honestly, if I was  
27 going to invest in this company would this give me a reason to pause? Would I find that this  
28 altered, significantly altered the total mix of information in the marketplace? Would I find  
this to be important? ).] Any error in this argument was harmless at worst.

1 miscarriage of justice. But to the extent the appellate court reverses this Court and rules that  
2 sufficient evidence supported the jury's finding that the Flynn reports were corrective  
3 disclosures, the Court is satisfied that justice was achieved, for Apollo and the class  
4 members.

5 In sum, none of the reasons cited by Apollo warrant a new trial in this case.  
6 Therefore, pursuant to Federal Rule of Civil Procedure 50(c)(1), the Court will conditionally  
7 deny Apollo's motion for new trial.

### 8 **III. Conclusion**

9 The evidence at trial was insufficient to support the jury's finding that the Flynn  
10 reports were corrective disclosures. Therefore, PABF failed to prove loss causation, and  
11 Apollo is entitled to judgment as a matter of law.

12 For the foregoing reasons,

13 **IT IS ORDERED** that Apollo's Motion for Judgment as a Matter of Law (Doc. #  
14 524) is **GRANTED**;

15 **IT IS FURTHER ORDERED** that Apollo's Motion for New Trial (Doc. # 523) is  
16 **DENIED**;

17 **IT IS FURTHER ORDERED** that, for the reasons stated on the record at the motion  
18 hearing held on August 4, 2008:

19 (1) PABF's Motion to Amend the Judgment (Doc. # 521) is **DENIED**;


20 (2) Apollo's Motion to Correct the Trial Record (Doc. # 550) is **GRANTED IN**  
21 **PART AND DENIED IN PART**; and

22 (3) Apollo's Motion for Remittitur (Doc. # 525) is **DENIED**;

23 **IT IS FURTHER ORDERED** that the Clerk of the Court shall vacate the judgment  
24 at Doc. # 508 and the award of costs at Doc. # 553, and shall enter judgment in favor of  
25 Defendants and against Plaintiffs.

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DATED this 4th day of August, 2008.

  
James A. Teilborg  
United States District Judge