

Now & Next

Securities-Fraud Case Alert

October 13, 2025

Second Circuit clarifies securities fraud pleading requirements for half-truths and scienter in channel-stuffing case

By George Skelly, Morgan Nighan, Matthew Costello, and Elijah Rockhold

The Second Circuit vacated a dismissal and reaffirmed that Rule 10b-5(b) centers on “statements made,” not the legality of the underlying business practices.



What’s the impact?

- **Half-truths, not pure omissions, drive Rule 10b-5(b) exposure after *Macquarie*.** The Second Circuit’s *Hain Celestial* decision provides a practical roadmap for when upbeat narratives and inventory commentary become actionable if undisclosed channel-stuffing and related incentives materially underpin reported results.
- **Scienter can be pleaded holistically.** Confidential-witness allegations, compensation incentives tied to misstated metrics, unusual insider sales, internal control weaknesses, “tone at the top,” and suspicious personnel changes—considered together—can create a strong inference of scienter at the pleading stage.
- **Boilerplate won’t cure half-truths.** Generic “sales incentives” disclosures typically cannot defeat half-truth theories on a motion to dismiss; the “truth-on-the-market” defense is fact-intensive.
- Restatements, GAAP misstatements, and SOX certifications may support falsity; post-*Macquarie*, omissions must be tied to specific statements.
- Allegations of inadequate revenue-recognition controls and discouraging candid internal dialogue can bolster scienter allegations.

In *Gimpel v. Hain Celestial Group, Inc.*, No. 23 7612 (2d Cir. Sept. 29, 2025), the plaintiffs brought a securities-fraud class action lawsuit under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 alleging that The Hain Celestial Group, Inc. (Hain) and four executives engaged in “channel-stuffing” by offering distributors significant end-of-quarter concessions—cash incentives, extended payment terms, discounts, spoils coverage, and alleged rights of return—to pull sales forward and meet expectations without adequate disclosure or accounting. The SEC launched an investigation into Hain’s practices; the company later restated its financials, conceding that it lacked internal controls to account for its practices. As a result, Hain’s sales figures plummeted, and the plaintiffs brought this current action. Hain later delayed filings, disclosed material weaknesses in internal controls, and restated prior results—overstating net sales by approximately \$167 million and GAAP EPS—after an SEC investigation that culminated in a cease-and-desist order for books-and-records and internal-controls violations (but no fraud charges).

After an initial dismissal and a Second Circuit remand, directing focus on “statements made,” the district court again dismissed for lack of scienter. In this second appeal, the Second Circuit vacated and remanded, holding that plaintiffs adequately alleged actionable misstatements and half-truths, scienter, loss causation, and Section 20(a) control-person liability.

Rule 10b-5(b) liability: False statements and half-truths

Rule 10b-5(b) prohibits both untrue statements of material fact and half-truths, statements rendered misleading by omitting critical qualifying information. Consistent with the US Supreme Court’s 2024 decision in *Macquarie*, the Second Circuit confined its analysis to statements the company made. The panel concluded that plaintiffs plausibly alleged falsity in Hain’s reported results, assertions of GAAP compliance, descriptions of revenue-recognition policies, internal-controls representations, and SOX (Sarbanes-Oxley Act) certifications, with Hain’s subsequent restatement and admissions of material weaknesses, reinforcing falsity at the time the statements were made.

The court also held that plaintiffs alleged actionable half-truths, holding that public attributions of growth to “strong demand,” “momentum,” and portfolio strength could mislead investors, where the company allegedly relied on undisclosed distributor concessions and experienced elevated returns, and that statements minimizing inventory issues as “one-offs” were similarly actionable in light of alleged saturation. The panel further explained that generic disclosures about “promotions” did not cure these statements at the pleading stage because the truth-on-the-market defense is fact-intensive and rarely suitable for dismissal.

Scienter: Motive and opportunity plus strong circumstantial evidence

Applying *Tellabs*, the court evaluated motive and opportunity together with circumstantial evidence and concluded that the allegations collectively support a cogent and compelling inference of scienter.

Motive and opportunity. The Court concluded that high-level officers had opportunity, crediting allegations of unusual insider sales by two executives and compensation directly tied to overstated metrics, including a near-miss bonus threshold that would have been unmet under proper accounting. It rejected any bright-line requirement to plead net profits, a “100-day” timing window, or sales by all defendants. The court considered these facts as factors, not prerequisites.

Circumstantial evidence. Confidential witness accounts described executives’ knowledge of, and participation in quarter-end concessions and shipment push-outs. Weekly reporting and executive sign-offs reinforced awareness of accounting and inventory dynamics. The complaint’s allegations of deficient internal controls, efforts to manage internal terminology, and directives discouraging inquiry supported an inference of recklessness. The scale and centrality of the practices to Hain’s business, together with a pattern of executive departures tied to the period, added further weight.

SEC order. The court gave no exonerating effect to the SEC’s decision not to bring fraud charges because a negotiated order is not adjudicative, and, in any event, Rule 10b-5(b) focuses on whether statements are misleading. The SEC’s observation that such incentives can have financial-reporting implications was, therefore, consistent with plaintiffs’ theory.

Loss causation and Section 20(a). The panel also held that plaintiffs adequately pleaded loss causation by alleging stock-price declines following corrective disclosures and investigation announcements. With the primary Rule 10b-5(b) claim revived, the court reinstated the derivative Section 20(a) control-person claims.

Practical takeaways and steps to mitigate risk

Half-truth risk is front and center. Ensure that public narratives align with underlying business drivers. After *Macquarie*, pure omissions are not actionable under Rule 10b-5(b), but statements about demand, growth drivers, inventory, or “momentum” can be actionable half-truths if they omit material countervailing facts (e.g., heavy reliance on end-of-quarter concessions, product returns, or channel saturation). Align messaging with practices. When discussing demand, growth, or inventory, incorporate material incentives, price concessions, and inventory dynamics as warranted.

Boilerplate won't cure specificity. Generic disclosures about promotions or "risks" are unlikely to defeat specific attributions of performance to organic demand or to neutralize statements minimizing inventory issues. Update MD&A (management discussion and analysis) and revenue-recognition descriptions to reflect material changes in incentives, returns, and sell-through.

Revenue recognition and return rights. End-of-quarter incentives require disciplined identification, accumulation, and assessment of accounting impact, including appropriate contra-revenue treatment, returns reserves, and deferral, where sell-through criteria apply. Centralize/document all end-of-quarter incentives and side agreements and route through finance for contemporaneous assessment and approvals. Implement controls to identify incentives, track returns/credits, and assess sell-through criteria. Stress-test returns reserves and accruals against historical patterns and current quarter activity.

SOX certifications and internal controls. SOX certifications are opinion statements that can be actionable if not supported by meaningful inquiry or if they conflict with known internal-control weaknesses. Enhance sub-certifications to require leaders to certify the existence/terms of off-contract concessions and return rights and promptly elevate exceptions.

Scienter exposure from incentives and trading. Compensation tied to revenue/earnings per share (EPS) thresholds and unusual insider trading can support scienter at the pleading stage, especially with contemporaneous data access or confidential witness accounts of executive involvement. Maintain robust 10b5-1 plans and blackout policies; monitor for outlier transactions.

Truth-on-the-market is fact-intensive. Assume generic disclosures will not carry the day against specific attributions of performance.

Inventory transparency. Where channel inventory exposure is material, consider trend disclosure and avoid characterizations such as "one-offs" without support. Ensure contemporaneous data supports transitory characterizations.

Tone at the top. Encourage candid discussion about channel practices; avoid terminology management that could appear to obfuscate risks.

Final thoughts

The Second Circuit's decision in *Hain Celestial* is notable for the range and quantity of circumstantial evidence the court considered in determining whether a complaint sufficiently alleged scienter in the Section 10(b) context, including the opportunity high-level corporate insiders generally have to commit fraud, officers' motivation from compensation tied to stock transactions, the timing and volume of stock sales, contradictions between public statements and contemporaneous facts supporting an inference of recklessness or conscious misbehavior, the defendants' knowledge derived from confidential witness statements, statements regarding defendants' knowledge of accounting practices, the involvement in concession negotiations,

top-down directives for accounting and reporting, allegations about a secret and fearful workplace, poor internal controls, the scale of the alleged fraud related to the size of business, the importance of the alleged acts to the business, personnel changes during the identified period, and the existence of a previous SEC investigation.

The case presents a current and clear statement on how the Second Circuit will address the numerous sub-doctrines that appear in a securities fraud 10b-5 analysis. The Second Circuit again confirmed that channel stuffing as a practice is not itself illegal and, thus, does not constitute fraud. The court focused instead on specific alleged statements that were essentially rendered false because they were inconsistent with the undisclosed practice. Securities litigators and corporate advisors would benefit from understanding how the court engages with these allegations at the motion-to-dismiss level as a roadmap for future cases.

Hain Celestial confirms that plaintiffs can survive dismissal, where they pair specific “half-truth” statements with a detailed record of incentives, inventory dynamics, accounting consequences, and executive involvement. Post-*Macquarie*, the emphasis on statements made—and on aligning performance narratives with underlying sales tactics—should inform earnings call transcripts, MD&A drafting, and quarter-end governance. For more information on the content of this alert, please contact your Nixon Peabody attorney or the authors of this alert:

For more information on the content of this alert, please contact your Nixon Peabody attorney or:

[George J. Skelly](#)

617.345.1220

gskelly@nixonpeabody.com

[Matthew W. Costello](#)

617.345.1024

mcostello@nixonpeabody.com

[Morgan C. Nighan](#)

617.345.1031

mnighan@nixonpeabody.com

[Elijah Rockhold](#)

617.345.6128

erockhold@nixonpeabody.com