

CORNERSTONE RESEARCH

Economic and Financial Consulting and Expert Testimony

Accounting Class Action Filings and Settlements

2017 Review and Analysis

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The views expressed in this report are solely those of the authors, who are responsible for the content, and do not necessarily represent the views of Cornerstone Research.

Highlights

Accounting class action filings rose to unprecedented levels in 2017, fueled by a record number of M&A accounting cases.

Although the number of accounting case settlements remained relatively high, the size of those settlements declined dramatically, reflecting fewer moderate to large settlements.

- There were 165 accounting class action filings during 2017, nearly twice the number filed in 2016.¹ (page 3)
- The increase was driven by the filing of 107 “nontraditional” accounting cases that do not allege violations of Rule 10b-5, Section 11, or Section 12(a)(2), specifically M&A accounting cases.² (page 3)
- Although the number of “traditional” accounting case filings dipped slightly in 2017,³ the cases that were filed involved larger defendant firms. (pages 5, 11)
- The number of accounting case settlements in 2017 increased slightly compared to 2016 and represented over 60 percent of all settled cases. (page 9)
- The total value of accounting case settlements declined to \$861.6 million, the lowest value in over 15 years. (page 10)
- The decline in accounting case settlement amounts was primarily driven by a drop in case size, as measured by a proxy for damages claimed by plaintiffs.⁴ (page 2)

Figure 1: Filings and Settlements Summary Statistics

(Dollars in Millions)

	Accounting Cases		Non-Accounting Cases	
	2017	2016	2017	2016
Filings Summary				
Total Number of Filings	165	88	247	183
Total Number of Traditional Filings	58	64	152	123
Total Disclosure Dollar Losses (DDL)	\$19,624	\$48,007	\$112,164	\$61,235
Settlements Summary				
Number of Settlements	49	46	32	39
Median Settlement	\$5.9	\$9.1	\$4.1	\$8.7
Average Settlement	\$17.6	\$106.5	\$19.1	\$31.3
Total Settlement Value	\$861.6	\$4,897.9	\$612.1	\$1,220.1

Note: Total Number of Filings includes all accounting cases; Total Disclosure Dollar Losses and settlements figures reflect “traditional” accounting cases only. Dollar values are adjusted for inflation; 2017 dollar equivalent figures are used.

Findings and Author Perspectives

In addition to the record level of nontraditional accounting class action filings, 2017 was marked by changes to historical trends in traditional accounting case filings and settlements, including a substantial decline in settlement size.

Nontraditional Accounting Case Filings

Over the past two years, an unprecedented number of merger objection (M&A) cases with accounting allegations have been filed. During 2017, there were 107 of these cases—an increase of more than four times the number filed in 2016.

In all of these cases, the plaintiffs alleged that merger-related disclosures did not include a reconciliation of projected non-GAAP measures to the most directly comparable GAAP measure.⁵ Plaintiffs have continued to file these cases despite the fact that the U.S. Securities and Exchange Commission (SEC) does not require a reconciliation for forward-looking information when the information needed for the reconciliation is not available without “unreasonable efforts.”⁶

Only one in five M&A accounting cases filed in the past two years was continuing at the end of 2017.⁷ This is consistent with the M&A cases previously filed in state venues that settled (were voluntarily dismissed) on a disclosure-only basis.

Traditional Accounting Case Filings

Over the past four years, traditional accounting cases were filed against larger issuer defendants. The median market capitalization of defendant firms reached its third-highest level in the last 10 years in 2017; the highest level was in 2016.

Although the DDL associated with traditional accounting cases was relatively high in 2016, it declined significantly in 2017. The decline is attributable, in part, to the absence of mega accounting cases.

Traditional accounting cases filed during the last two years were more likely to be dismissed than non-accounting cases. These results are unexpected since, historically, traditional accounting cases have had lower dismissal rates.

There were no auditor defendants named in traditional accounting case filings during 2017—the first year that has happened since enactment of the Private Securities Litigation Reform Act of 1995 (PSLRA).

Looking ahead, new accounting standards that will become effective beginning in 2018 may increase traditional accounting case filings. For example, Audit Analytics noted that the adoption of the new revenue recognition standard could result in an increase in the number of restatements in 2018.⁸

Accounting Case Settlements

Underlying the decline in accounting case settlement size was a substantial drop in the proxy for damages claimed by plaintiffs, which reached the lowest level over the past decade. Our research consistently finds that a measure of damages claimed by plaintiffs is the most important factor in explaining variation in settlement amounts.⁹

The size of defendant firms is also an important determinant of settlement amounts, as it can indicate the resources available to fund the settlement. Issuer defendants involved in accounting case settlements approved in 2017 were the largest observed over the past five years, but the larger firm size was not enough to offset the dampening effect on settlement amounts due to the decrease in the damages proxy.

We use regression analysis to simultaneously examine different factors that affect settlements. Overall, we find that accounting-related factors, such as the presence of a financial statement restatement, continue to play a significant role in determining settlement amounts.

Looking ahead, recent trends in accounting case filings provide a basis for projecting future accounting case settlement trends. In particular, recent accounting case filing activity suggests that the trend of larger issuer defendants will likely continue. In addition, based on preliminary settlement activity in early 2018, we expect that the aggregate value of accounting cases settled will rebound in the coming year.

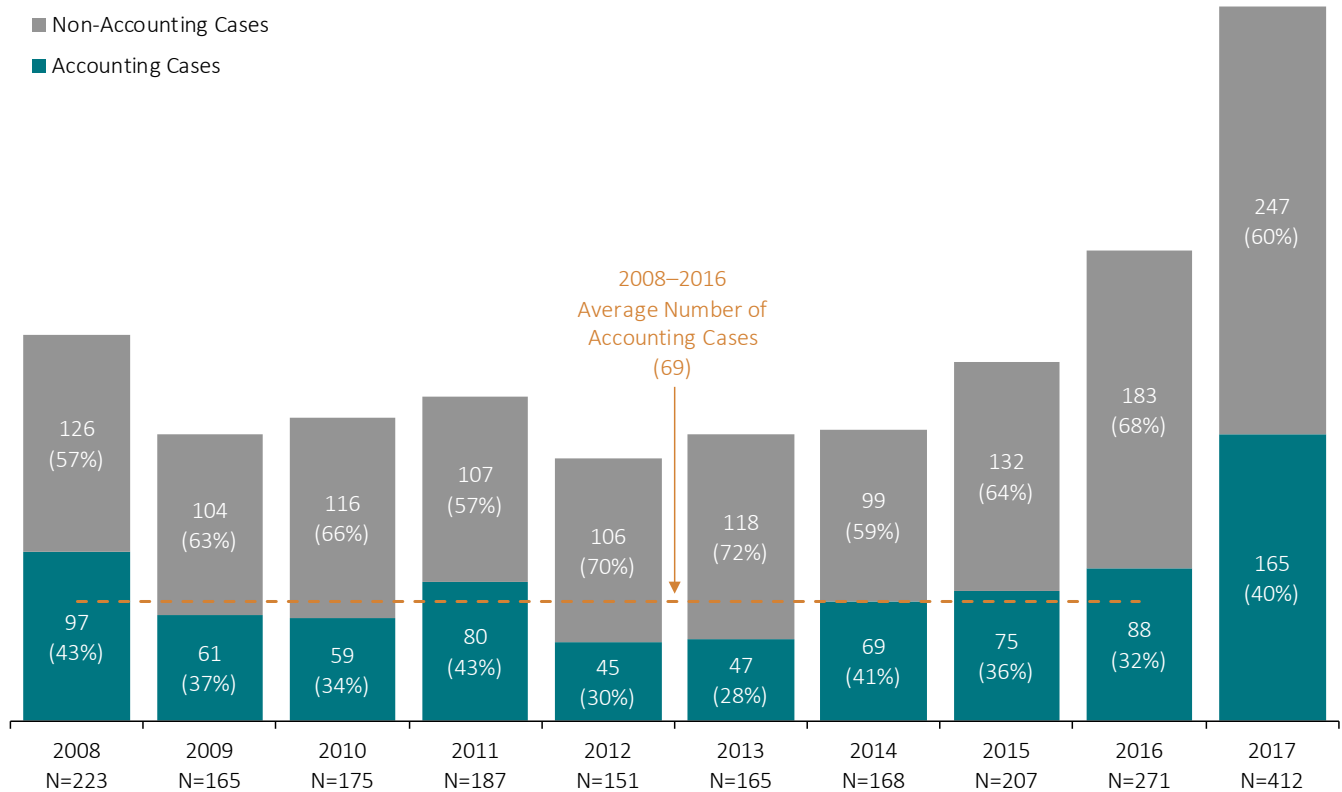
Filings

Number of Accounting Case Filings

- Plaintiffs filed a record 165 accounting cases in 2017.
- The number of accounting case filings in 2017 was 88 percent higher than in 2016, and more than double the 2008–2016 average.
- The dramatic increase resulted from a spike in nontraditional accounting case filings, primarily related to M&A transactions.¹⁰
- During 2017, plaintiffs filed 202 class actions that related to M&A transactions. The majority of those cases (107 cases) included accounting allegations specifically related to the reconciliation of non-GAAP to GAAP measures.

Total accounting case filings reached a record level.

Figure 2: Accounting Case Filings as a Percentage of Total Filings 2008–2017

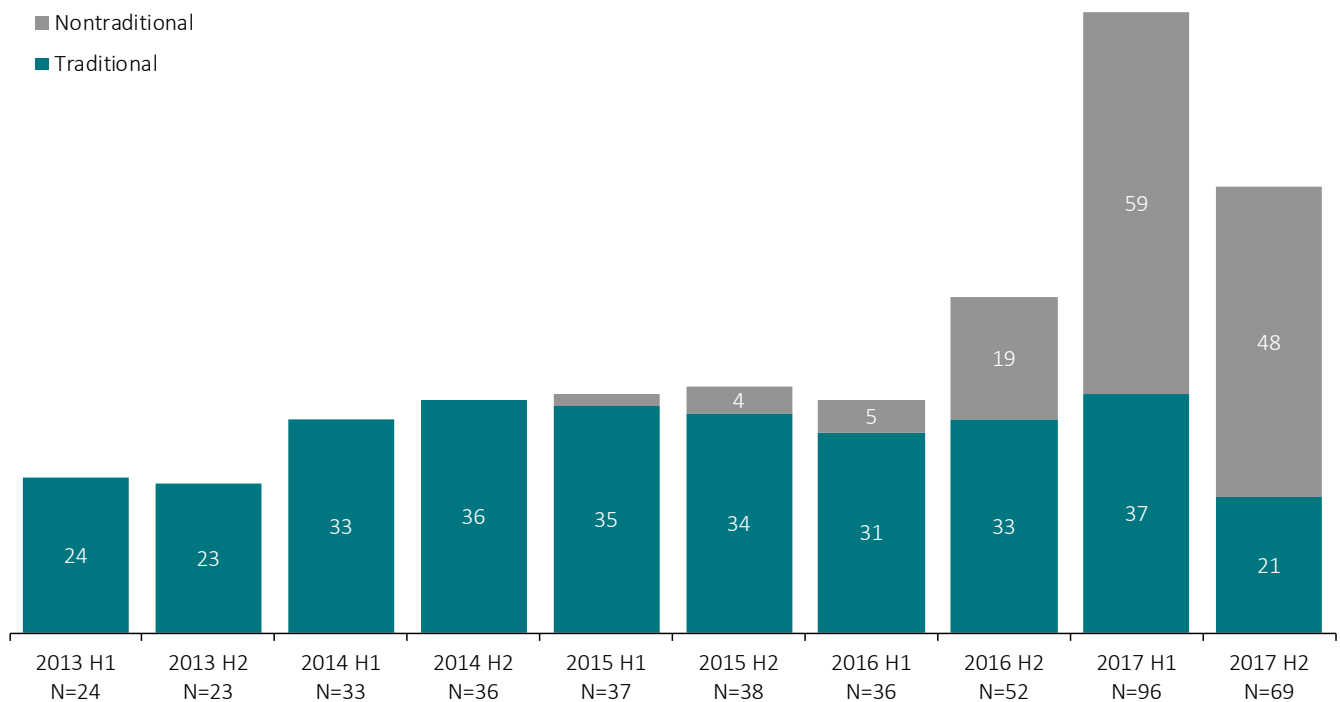


Semiannual Accounting Case Filings

- Total accounting case filing activity decreased by 28 percent in the second half of 2017 compared to the first half.
- The pace of traditional accounting case filings slowed in the second half of the year. The 21 traditional accounting cases in the second half of 2017 was the lowest number in a semiannual period over the last five years.
- Although the pace of nontraditional accounting case filings slowed in the second half of 2017, the number of cases filed remained at significantly higher levels than filings in prior years.

For the first time in the last five years, significantly fewer accounting cases were filed in the second half of the year.

Figure 3: Semiannual Accounting Case Filings 2013–2017

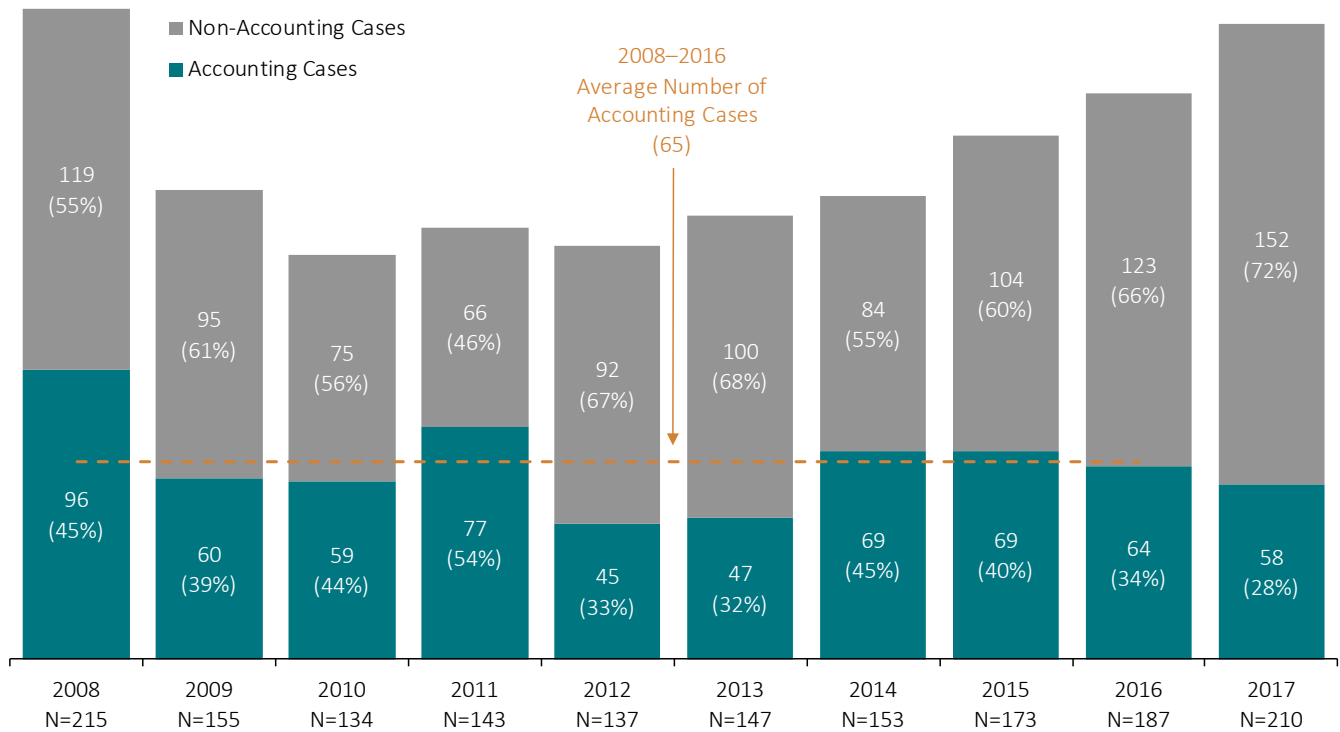


Traditional Accounting Case Filings

- There were 58 traditional accounting case filings in 2017, a decrease of 9 percent from 2016.¹¹
- The decrease in traditional accounting case filings is attributable to a significant slowdown in filings in the second half of the year.
- Accounting case filings declined for the second year in a row but remained at higher levels than filings in 2012 and 2013.

For the first time since the PSLRA was enacted, no auditors were named as defendants in the initial accounting case filings.

Figure 4: Traditional Accounting Case Filings as a Percentage of Total Traditional Filings 2008–2017



Traditional Accounting Case Filings and Market Capitalization Losses

Disclosure Dollar Loss Index® (DDL Index®)

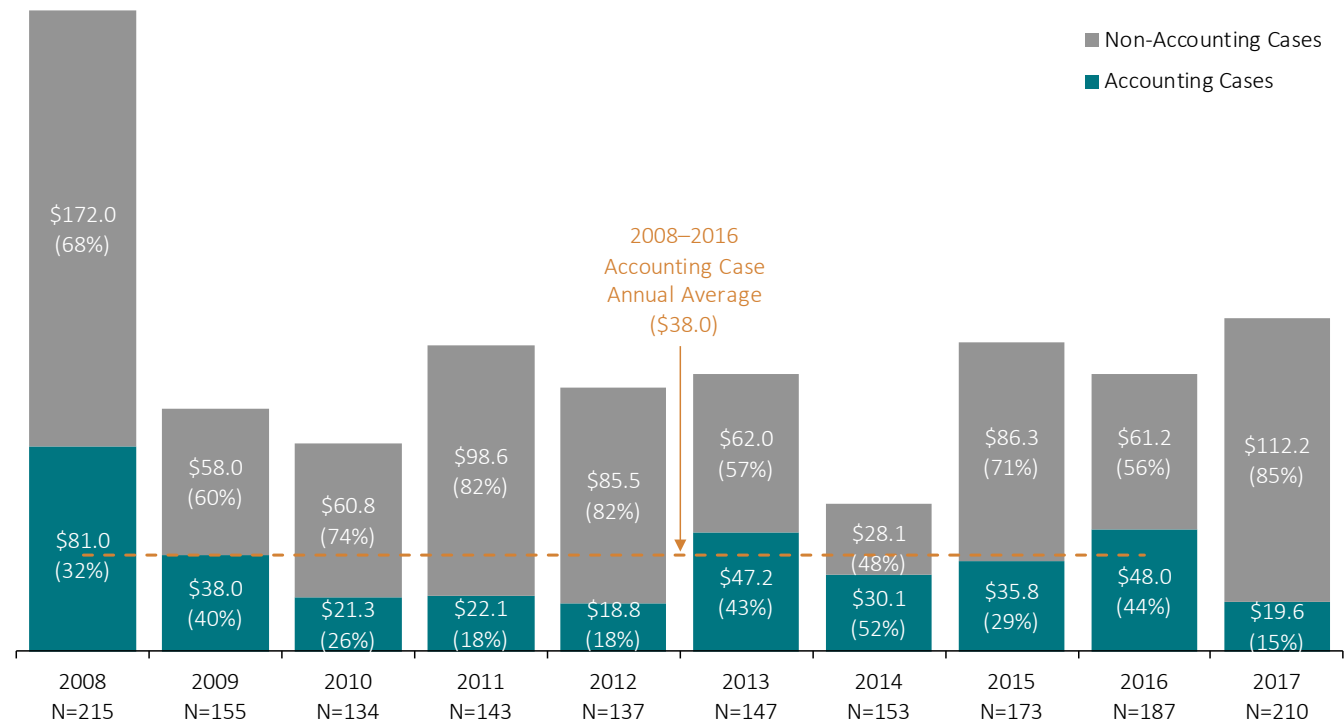
This index measures the aggregate DDL for all filings over a period of time. DDL is the dollar value change in the defendant firm’s market capitalization between the trading day immediately preceding the end of the class period and the trading day immediately following the end of the class period. DDL should not be considered an indicator of liability or measure of potential damages.

- DDL for accounting cases has fluctuated significantly over the past 10 years.¹²
- DDL for accounting cases decreased \$28.4 billion, or 59 percent, from 2016, the second-largest change in the last 10 years in both dollar and percentage terms.
- There were no accounting cases with a DDL of at least \$5 billion (mega DDL cases) in 2017. This is only the third time in the last 10 years that a mega accounting case was not filed.

The DDL Index for accounting cases decreased to its lowest level since 2012.

Figure 5: Disclosure Dollar Loss Index®
2008–2017

(Dollars in Billions)



Note: DDL dollars are adjusted for inflation; 2017 dollar equivalent figures are used.

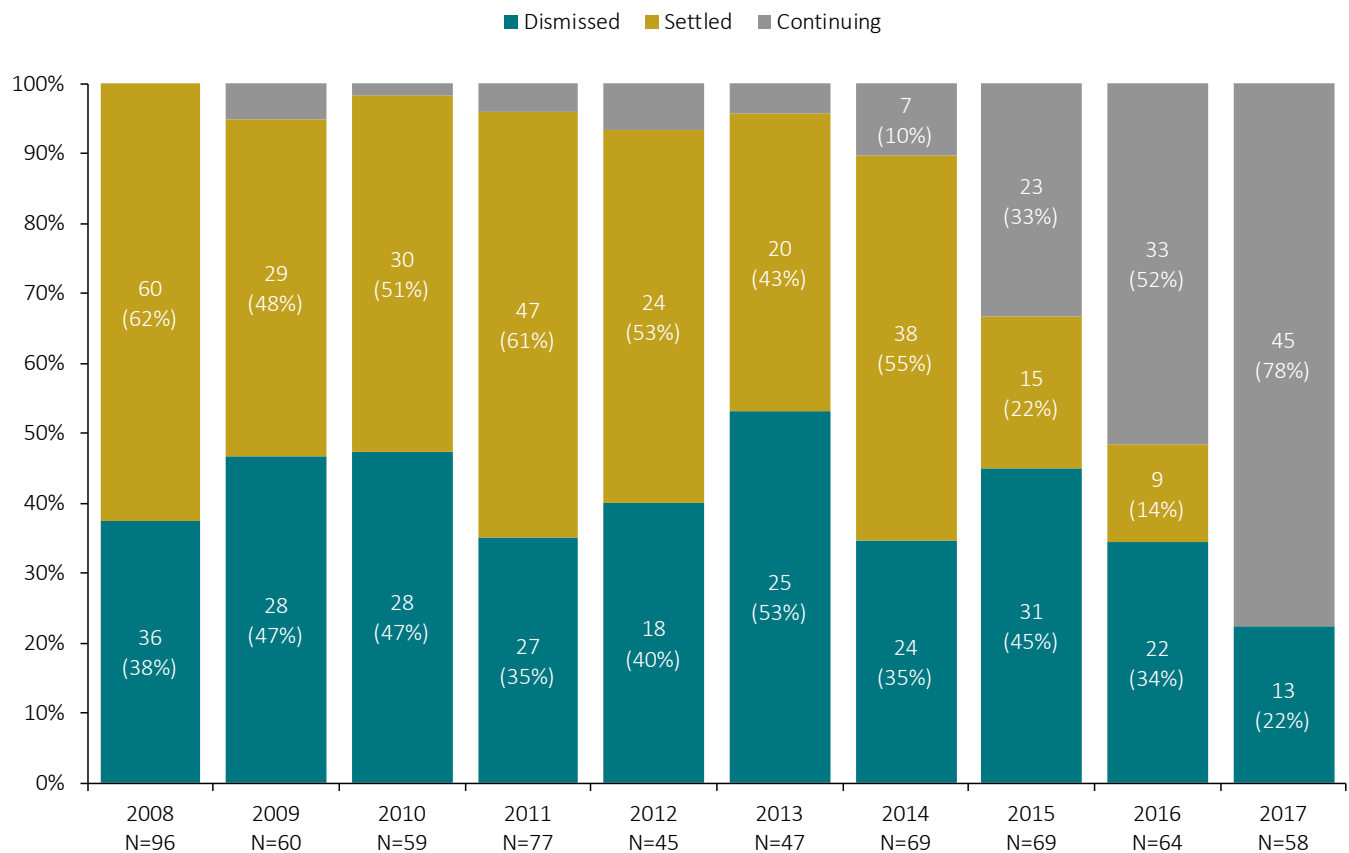
Status of Traditional Accounting Cases

This analysis examines whether filing outcomes have changed over time and compares the outcomes of filing cohort groups. As each cohort ages, a larger percentage of cases are resolved—whether through dismissal, settlement, or trial verdict outcome.

- From 2008 through 2017, 42 percent of traditional accounting cases settled, 39 percent were dismissed, and 19 percent are continuing.
- Dismissal rates for nontraditional cases filed in the past two years have been significantly higher than the rates for traditional cases. Fifty-eight percent of the 2016 nontraditional accounting cases and 78 percent of the 2017 nontraditional accounting cases have already been dismissed.

In the past two years, dismissal rates have been higher for traditional accounting than non-accounting cases, reversing a trend that had been observed for many years.

Figure 6: Status of Traditional Accounting Cases by Year 2008–2017



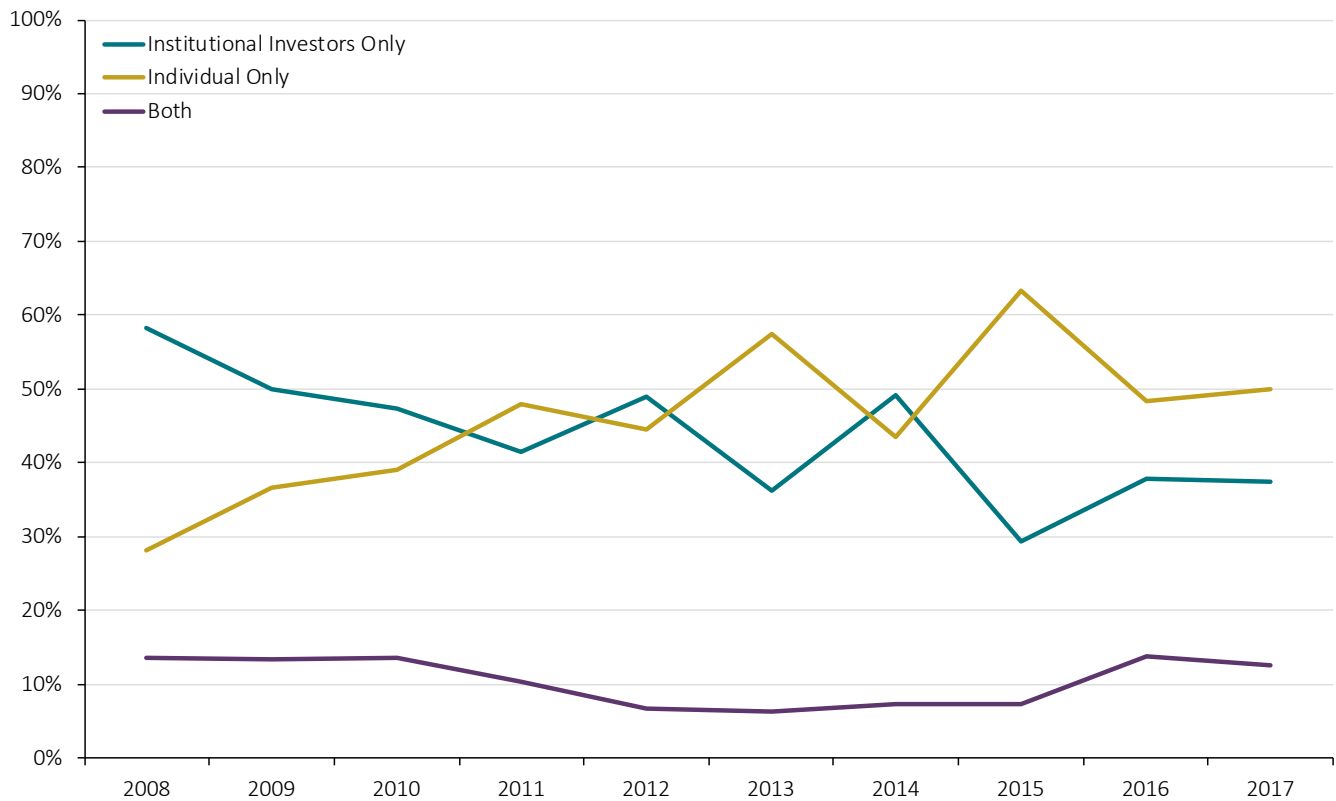
New Analysis: Traditional Accounting Cases by Lead Plaintiff

This analysis examines how frequently individual or institutional investors were appointed as lead plaintiffs in traditional accounting cases.

Individuals were more often appointed as the lead plaintiff in traditional accounting cases in four of the last five years.

- From 2008 to 2010, institutional investors were appointed as lead plaintiffs more often than individuals, although the difference narrowed over those years.
- Starting in 2011, individuals were appointed as lead plaintiffs more often than institutional investors.
- For the past five years, individuals have been appointed as lead plaintiffs in 53 percent of the total cases filed.

Figure 7: Percentage of Traditional Accounting Cases by Lead Plaintiff 2008–2017



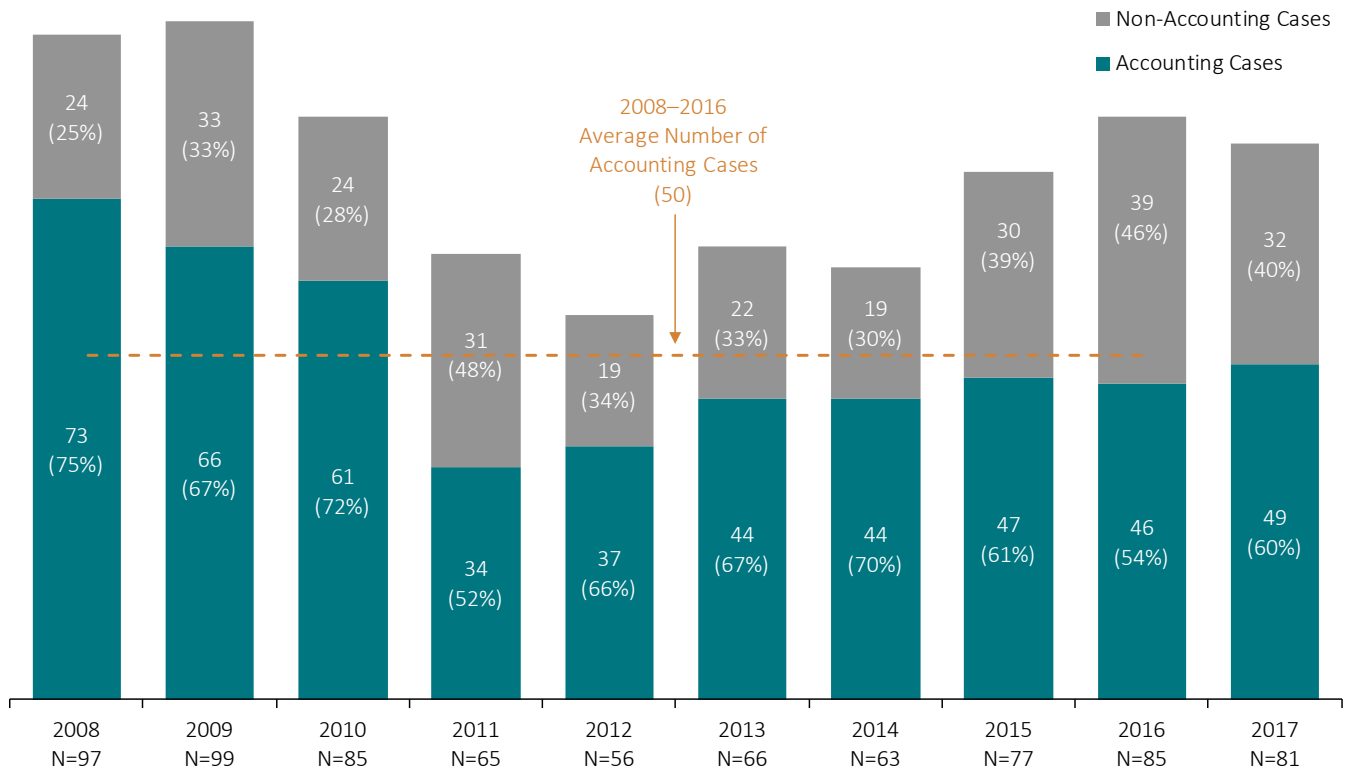
Settlements

Number of Accounting Case Settlements

- The proportion of accounting case settlements in relation to all settlements increased in 2017.
- The number of accounting cases as a percentage of settlements is consistently higher than the percentage of filings. This is because accounting cases have historically been less likely to be dismissed (and thus more likely to settle), and accounting allegations are often added as cases progress beyond the initial complaint.
- On average, accounting cases that settled during 2017 took 3.4 years to reach settlement, slightly longer than non-accounting cases.

The number of accounting cases settled during 2017 was the highest since 2010.

Figure 8: Accounting Case Settlements as a Percentage of Total Settlements 2008–2017



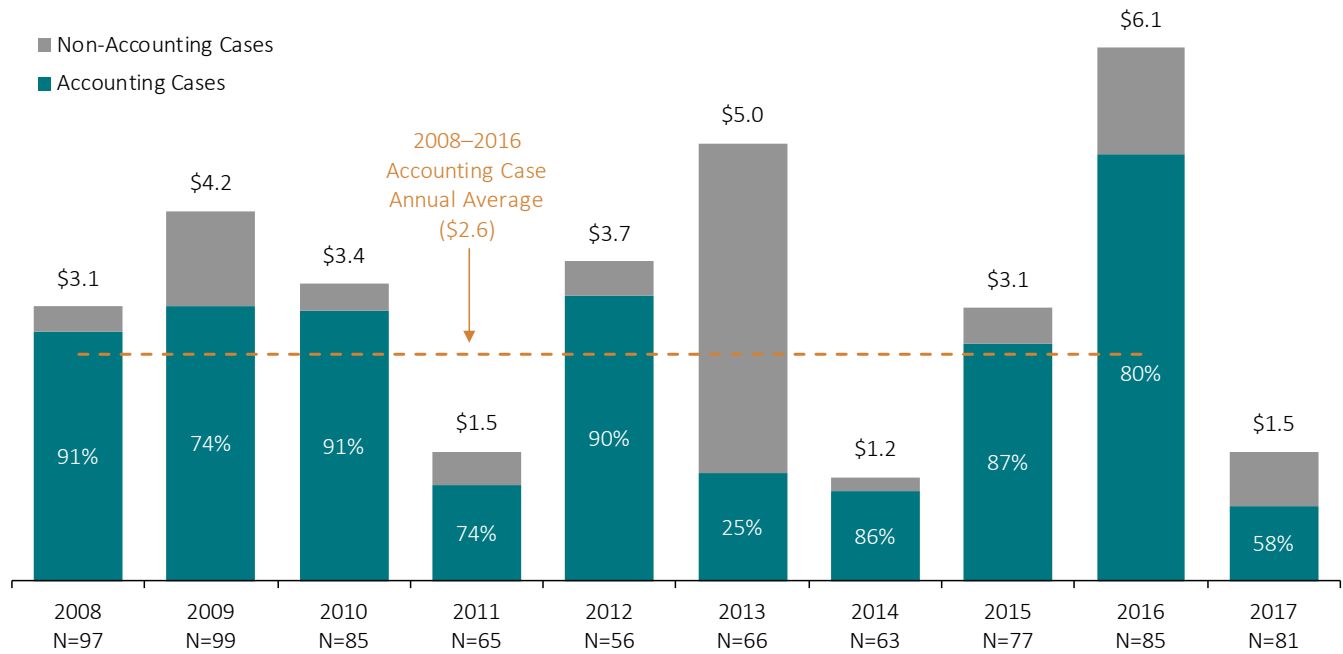
Accounting Case Settlement Size

- Total settlement dollars vary substantially from year to year, due to the presence or absence of very large settlements.
- The settlement value of accounting cases represented 58 percent of the total value of cases settled in 2017.
- Overall, in 2017, only four settlements reached \$100 million or more; two of these involved accounting allegations.

The total settlement value of accounting cases in 2017 was the lowest since 1999.

Figure 9: Accounting Case Settlement Dollars as a Percentage of Total Settlement Dollars 2008–2017

(Dollars in Billions)



Note: Settlement dollars are adjusted for inflation; 2017 dollar equivalent figures are used.

Firm Size

New Analysis: Traditional Accounting Cases by Firm Size

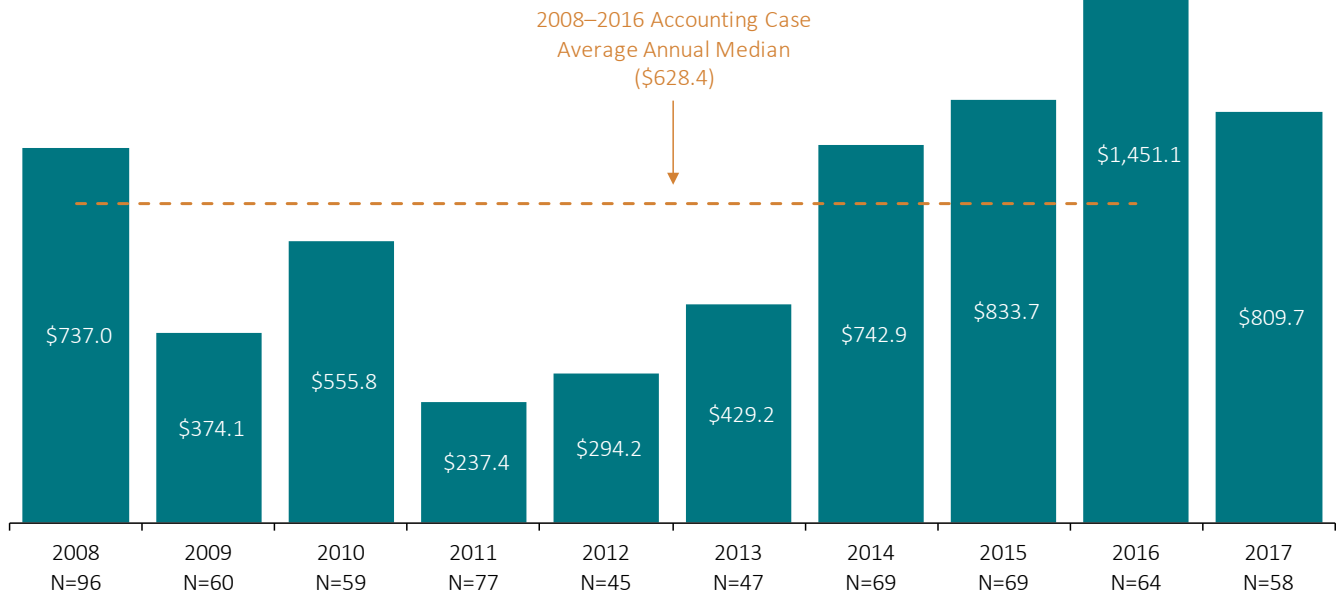
This analysis examines whether the size of defendant firms has changed over time, based on pre-disclosure market capitalization.

- Although the size of issuer defendants, as measured by market capitalization, declined significantly in 2017 compared to 2016, median market capitalization was well above the 2009–2013 levels.
- Median and average market capitalization for accounting cases in 2017 reached their third-highest levels in the last 10 years.

Over the past four years, accounting cases have been filed against larger issuer defendants.

Figure 10: Traditional Accounting Cases and Median Market Capitalization of Issuer Defendants 2008–2017

(Dollars in Millions)



Note: Market capitalization dollars are adjusted for inflation; 2017 dollar equivalent figures are used.

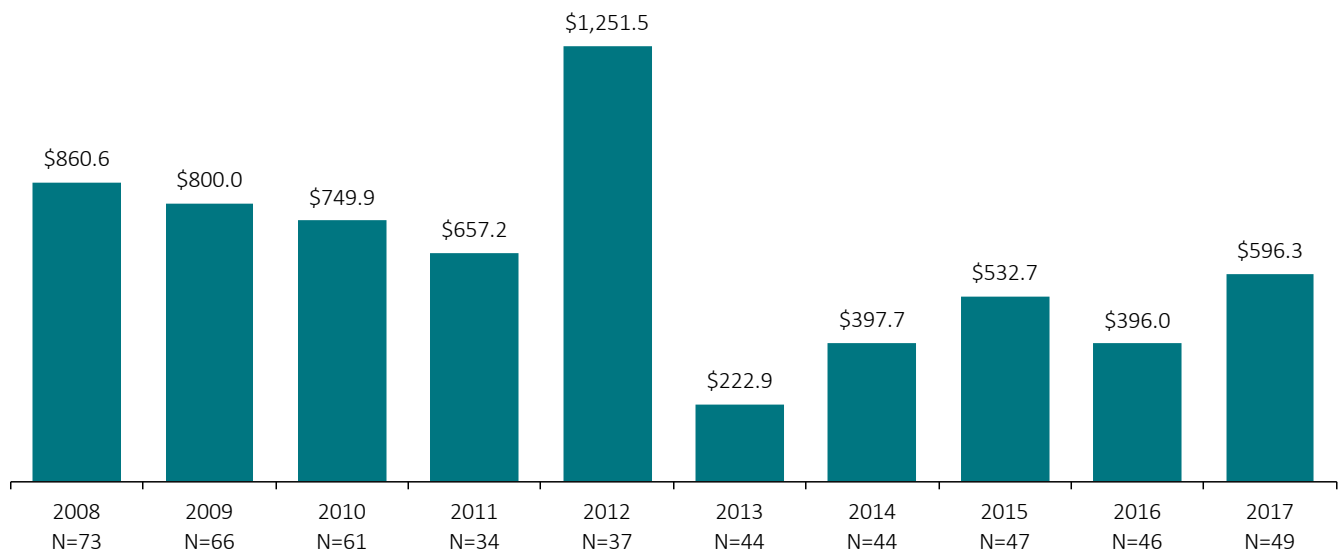
New Analysis: Accounting Case Settlements by Firm Size

- In 2017, the size of issuer defendants involved in accounting case settlements, as measured by median market capitalization, increased by over 50 percent compared to 2016.
- Cases involving larger issuer defendants are traditionally associated with institutional lead plaintiffs and longer periods from filing to settlement.

Issuer defendants involved in accounting case settlements in 2017 were the largest since 2012.

Figure 11: Accounting Case Settlements and Median Market Capitalization of Issuer Defendants 2008–2017

(Dollars in Millions)



Note: Settlement dollars are adjusted for inflation; 2017 dollar equivalent figures are used.

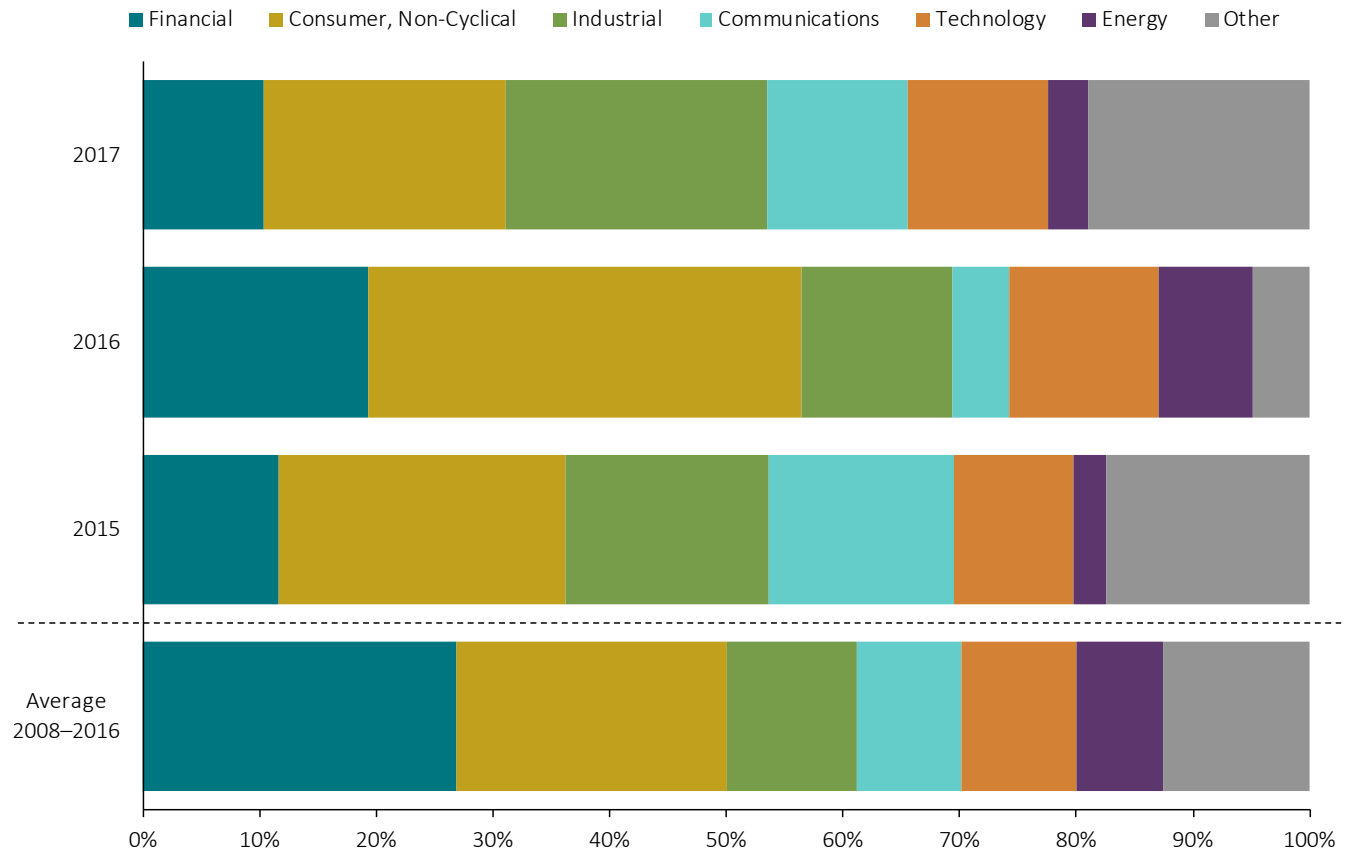
Industry

Traditional Accounting Cases by Industry

- The Industrial sector had 22 percent of accounting cases, double the historical average.
- The DDL for accounting cases in the Industrial sector in 2017 was the largest among all sectors for the first time in the last 10 years.
- Cases in the Technology sector alone accounted for 21 percent of the total accounting case DDL.
- Only 10 percent of 2017 accounting cases were against companies in the Financial sector. This percentage is substantially lower than in the peak years from 2007 to 2010, during the financial crisis, when accounting cases against companies in the Financial sector accounted for 42 percent of total accounting cases.

The number of accounting cases in the Industrial and Technology sectors exceeded historical levels for the third year in a row.

Figure 12: Number of Traditional Accounting Cases by Industry 2008–2017



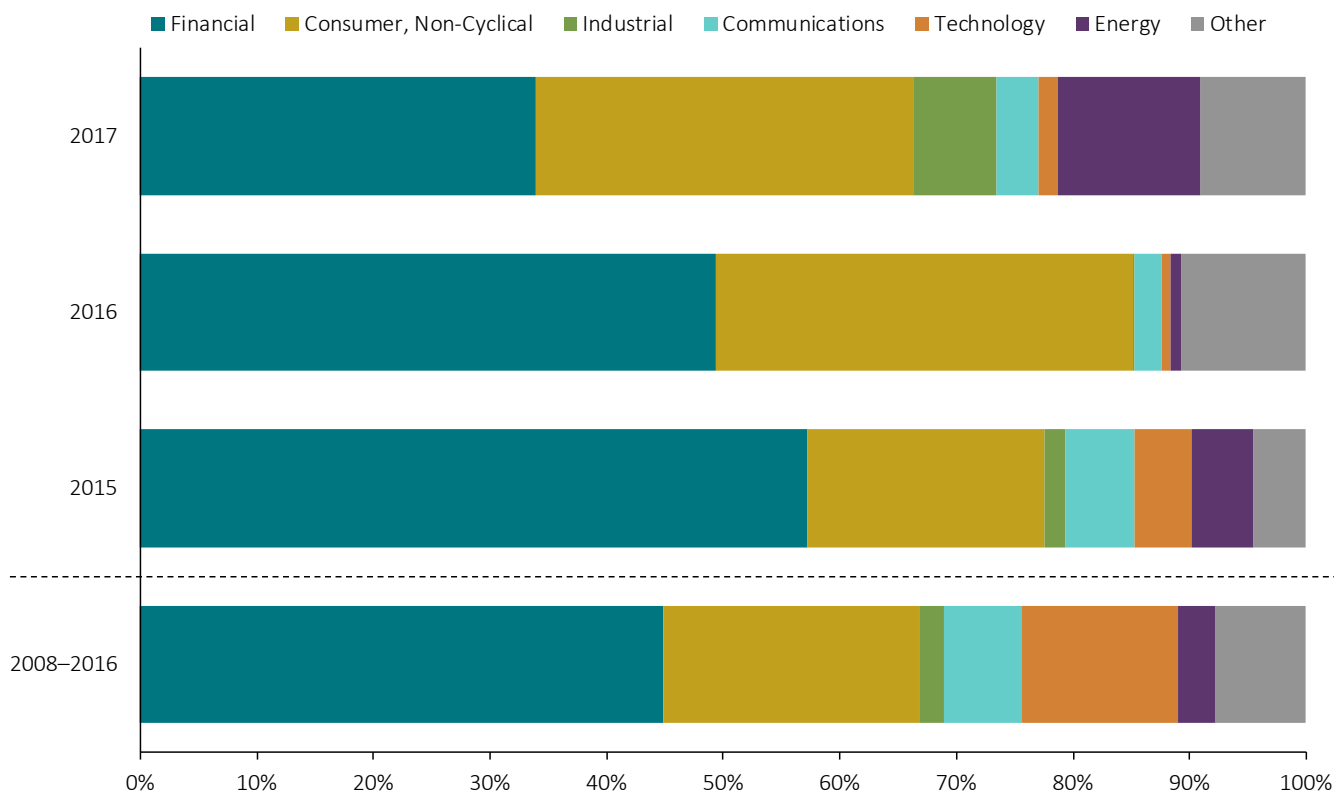
Note: Industries that comprise “Other” are Consumer, Cyclical; Basic Materials; Utilities; and Diversified.

Accounting Case Settlement Value by Industry

- For the second year in a row, the proportion of accounting case settlement dollars represented by financial firms declined.
- The Consumer, Non-Cyclical and Financial sectors each represented approximately one-third of total settlement value, although the number of settlements in each sector differed.
- The Consumer, Non-Cyclical sector had seven settlements, with an average settlement amount of \$38.8 million.
- In contrast, the Financial sector had 11 settlements, with an average settlement amount of \$25.7 million.
- This pattern differs from prior years, in which a small number of large settlements typically accounted for a majority of the settlement value for Financial sector firms.

The settlement value associated with both the Industrial and Energy sectors increased.

Figure 13: Value of Accounting Case Settlements by Industry 2008–2017



Note: Settlement dollars are adjusted for inflation; 2017 dollar equivalent figures are used. Industries that comprise “Other” are Consumer, Cyclical; Basic Materials; and Utilities.

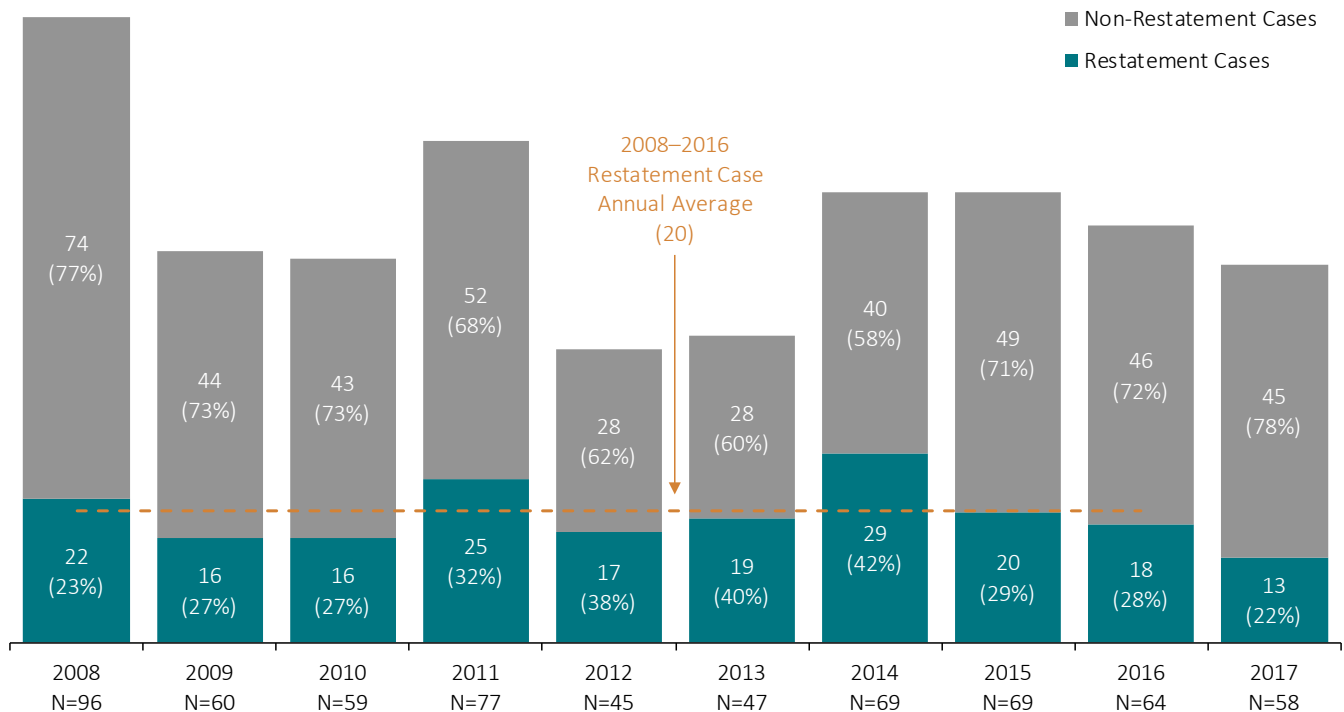
Restatements

Traditional Accounting Cases Involving Restatements

- Cases involving financial statement restatements were 22 percent of the total number of traditional accounting cases, but only 11 percent of total accounting case DDL.
- Both the total number and DDL of restatement cases were below historical averages. The number of 2017 restatement cases was 35 percent lower than the historical average, while restatement case DDL was 49 percent lower than the historical average.
- Companies in the Industrial sector accounted for 31 percent of the restatement cases, the highest proportion of any sector.

The number of accounting cases involving restatements decreased for the third consecutive year.

Figure 14: Traditional Accounting Cases Involving Restatements 2008–2017

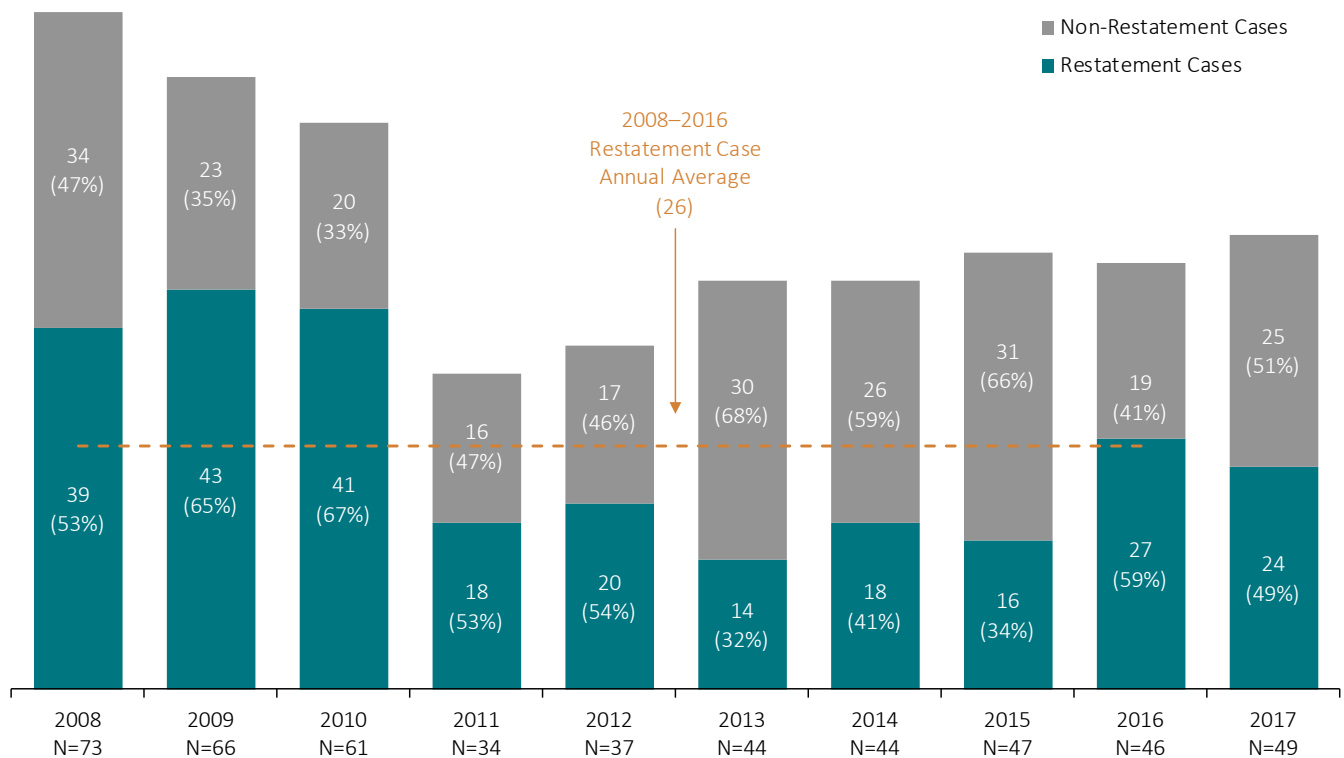


Accounting Case Settlements Involving Restatements

- The number of accounting case settlements involving restatements was slightly below the 2008–2016 average.
- Out of all accounting and non-accounting case settlements, the largest settlement involved a financial statement restatement.
- Issuer defendants involved in settlements of restatement cases in 2017 were relatively large. In particular, median issuer assets for settled cases involving restatements were the highest in the last five years.
- Given the decline in the number of case filings involving restatements since 2014, the number of settled cases involving restatements in future years is likely to decrease.

The number and proportion of accounting case settlements involving restatements decreased in 2017 compared to 2016.

Figure 15: Accounting Case Settlements Involving Restatements 2008–2017



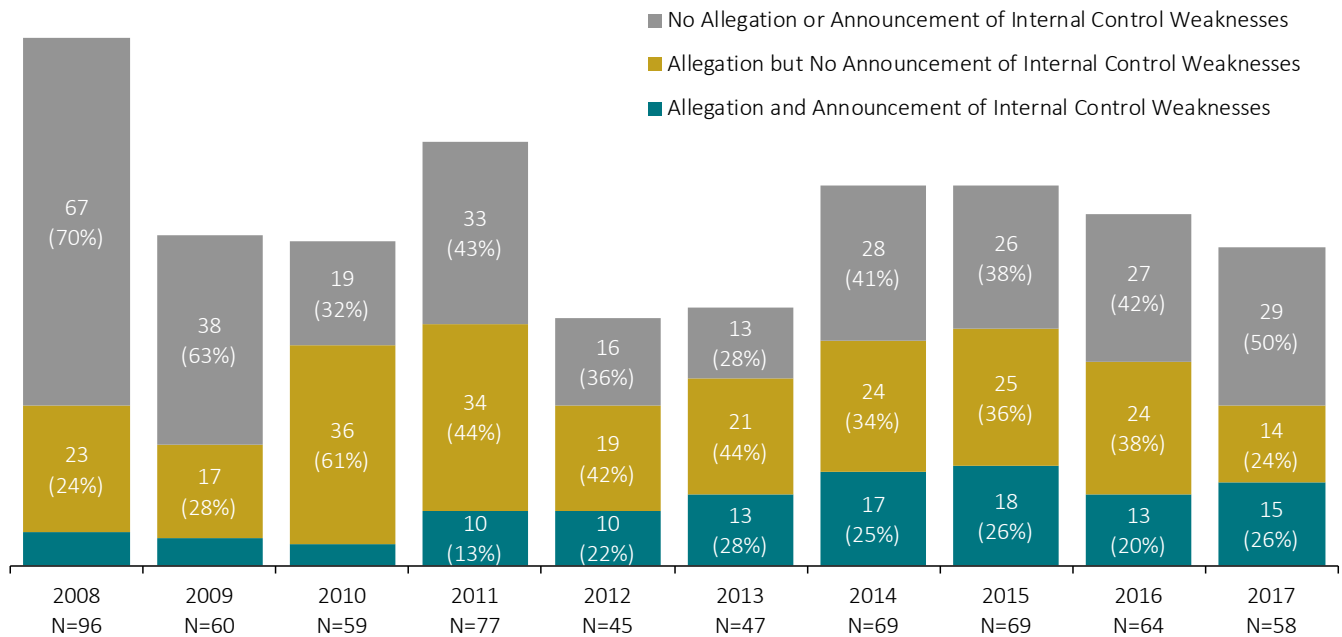
Internal Control Weaknesses

Traditional Accounting Cases Involving Allegations of Internal Control Weaknesses

- For the first time in eight years, the percentage of accounting cases including allegations of internal control weaknesses was equal to the percentage that did not include such allegations.¹³
- The number of accounting cases containing an allegation and an announcement of internal control weaknesses exceeded the historical average for the fifth consecutive year.
- In 2017, of the 15 accounting cases that included allegations and announcements of internal control weaknesses, approximately half also included a restatement.
- Allegations of internal control weaknesses arose in 69 percent of restatement cases.

The number of accounting cases containing an allegation, but no announcement, of internal control weaknesses was at its lowest level in 10 years.

Figure 16: Traditional Accounting Cases Involving Allegations of Internal Control Weaknesses 2008–2017



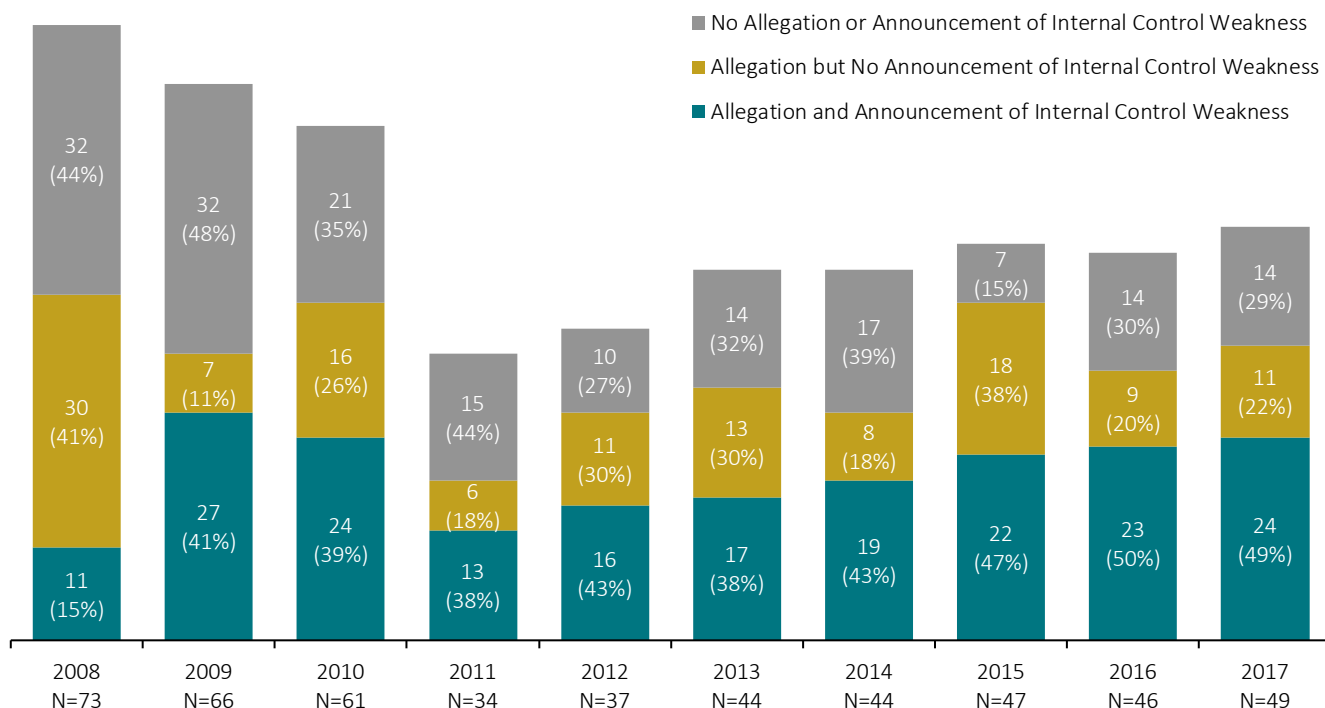
Accounting Case Settlements Involving Allegations of Internal Control Weaknesses

- In 2017, accounting case settlements involving allegations of internal control weaknesses, both with and without accompanying announcements of internal controls weaknesses, increased over 2016.

Accounting case settlements involving an allegation and announcement of internal control weaknesses increased for the sixth year in a row.

- Allegations of internal control weaknesses are frequently associated with larger firms and larger cases (as measured by a proxy for damages claimed by plaintiffs). In contrast, company announcements of internal control weaknesses are not correlated with these factors.
- While allegations of internal control weaknesses are common, they are not associated with higher settlement amounts, based on a regression analysis that accounts for several factors affecting settlements.

Figure 17: Accounting Case Settlements Involving Allegations of Internal Control Weaknesses 2008–2017



Factors Affecting Settlements of Cases Involving GAAP Issues

Median “Simplified Tiered Damages”

This section takes a closer look at settlement amounts across several different categories of GAAP issues (write-downs, restatements, and accounting irregularities)¹⁴ and examines settlements across these categories in relation to a proxy for damages claimed by plaintiffs. This relationship is important to consider because a proxy for damages is the single most important determinant of settlement amounts.

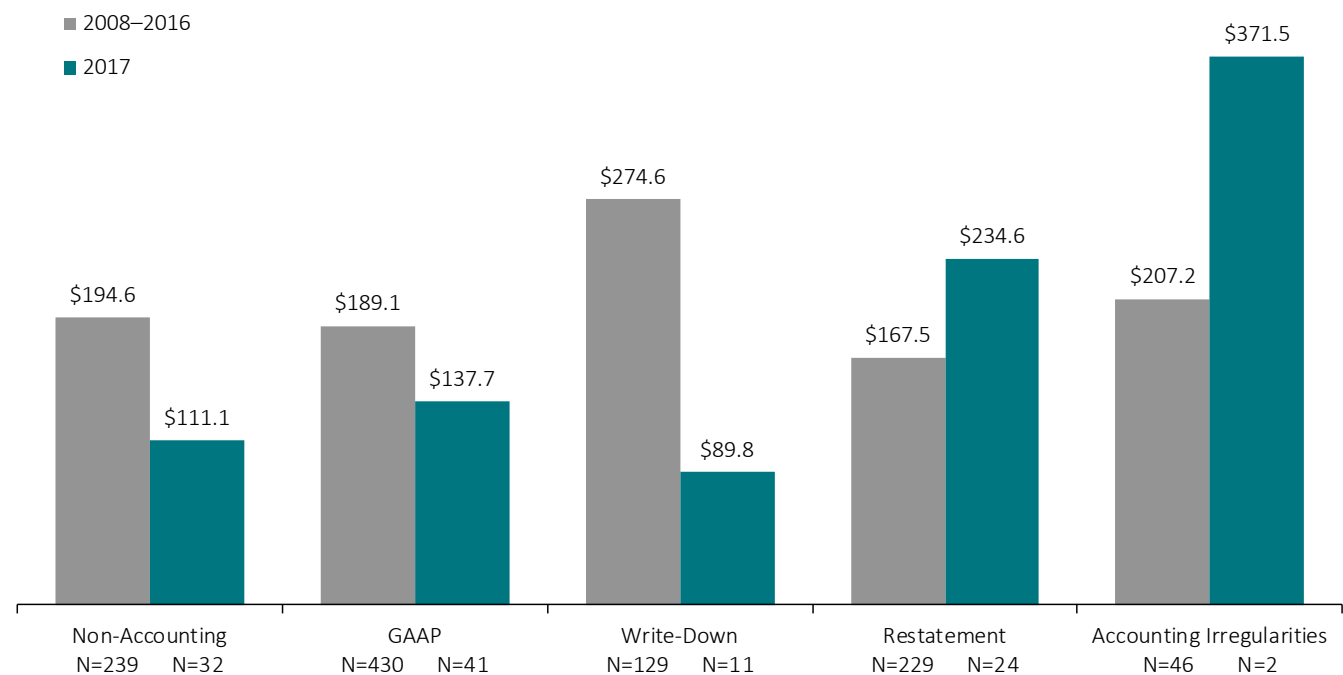
The proxy used in this report is referred to as “simplified tiered damages” and bases per-share inflation estimates on the value of a defendant’s stock price movements for the dates detailed in the plan of allocation per the settlement notice. This proxy is further described in *Securities Class Action Settlements—2017 Review and Analysis*.¹⁵

Settled cases involving write-downs were substantially smaller, as measured by “simplified tiered damages.”

- Overall, median and average “simplified tiered damages” for accounting case settlements in 2017 were the lowest in the past decade.
- Settlements of cases with GAAP allegations have historically been associated with higher “simplified tiered damages” compared to non-accounting cases. In 2017, this remained true for GAAP cases overall, and for cases involving restatements or accounting irregularities. However, it was not true for cases involving write-downs (a subset of cases with GAAP issues).
- Median “simplified tiered damages” for restatement cases settled in 2017 were 40 percent higher than for 2008–2016.
- Of the 24 cases settled in 2017 involving restatements, seven involved an accompanying SEC action and 13 involved a corresponding derivative action.

Figure 18: Median “Simplified Tiered Damages” in Settlements of Cases Involving GAAP Issues

(Dollars in Millions)



Note: “Simplified tiered damages” are adjusted for inflation based on class period end dates; 2017 dollar equivalent figures are used.

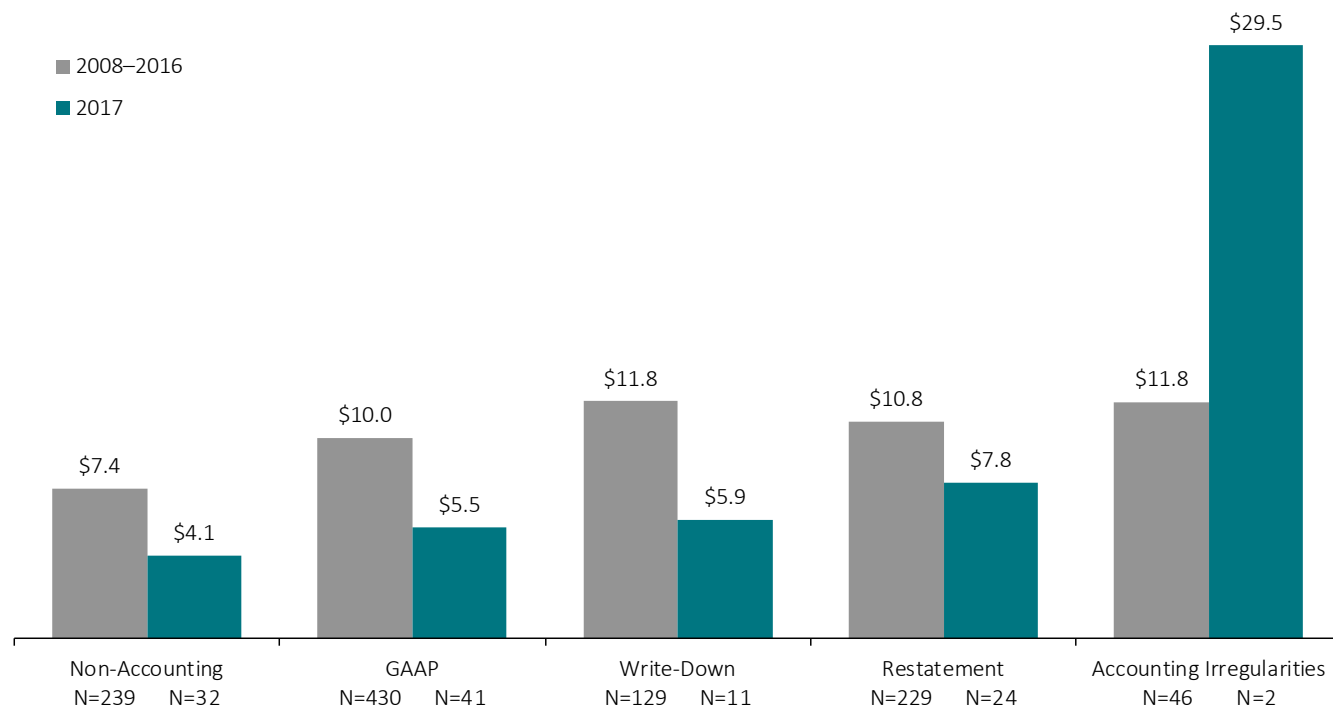
Median Settlement Amounts

- While settlement amounts for cases involving GAAP allegations decreased in 2017 relative to the prior nine years, they remained higher than for non-accounting cases.
- In 2017, 25 of the issuer defendants that settled cases involving GAAP allegations reported the amount contributed by the Directors and Officers insurance carrier (D&O carrier). The D&O carrier paid 100 percent of the issuer defendant’s portion of the settlement in 18 of the 25 cases.
- Cases involving accounting irregularities settled for unusually high amounts in 2017. However, these reflect cases in which the issuer defendant reported the occurrence of accounting irregularities (intentional misstatements or omissions) in its financial statements. Such reporting is relatively rare.
- Historically, settlements involving write-downs have been concentrated among issuer defendants in the Financial sector. From 2008 to 2017, almost 40 percent of write-down settlements were associated with financial companies, nearly two and a half times more common than any other industry.

Settlement amounts were generally lower for both accounting and non-accounting cases.

Figure 19: Median Settlement Amounts in Cases Involving GAAP Issues

(Dollars in Millions)



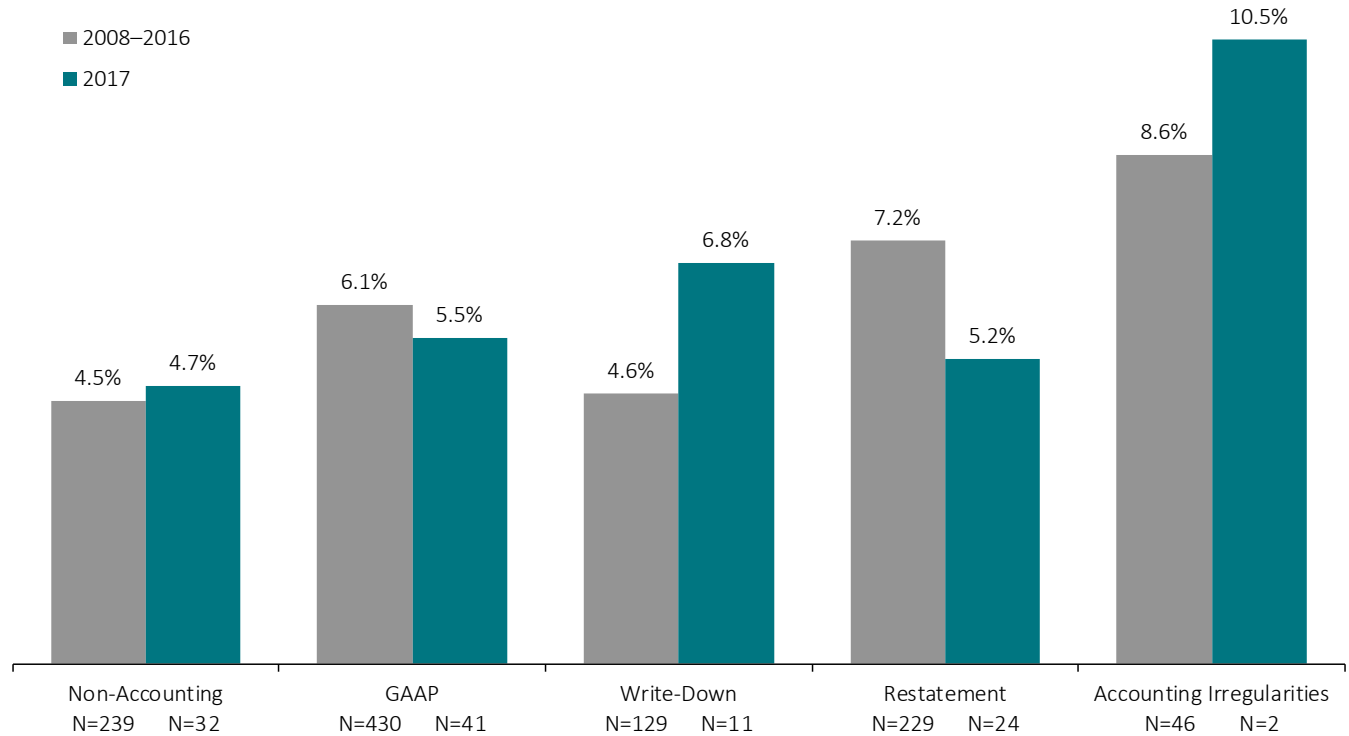
Note: Settlement dollars are adjusted for inflation; 2017 equivalent figures are used.

Median Settlements as a Percentage of “Simplified Tiered Damages”

- Cases involving all categories of GAAP issues continued to settle for higher proportions of “simplified tiered damages” relative to non-accounting cases.
- Settlements as a percentage of “simplified tiered damages” generally decrease as case size increases. Accordingly, for settled cases involving write-downs, the growth in the median settlement as a percentage of “simplified tiered damages” in part reflects the decline in the size of the cases involved.
- For cases involving financial statement restatements, settlements in relation to “simplified tiered damages” declined sharply in 2017.
- Only one settlement in 2017 that involved a financial statement restatement included an auditor as a named defendant. Four additional accounting case settlements not involving restatements included an auditor as a named defendant.

The median settlement as a percentage of “simplified tiered damages” for cases involving write-downs was the highest in more than 10 years.

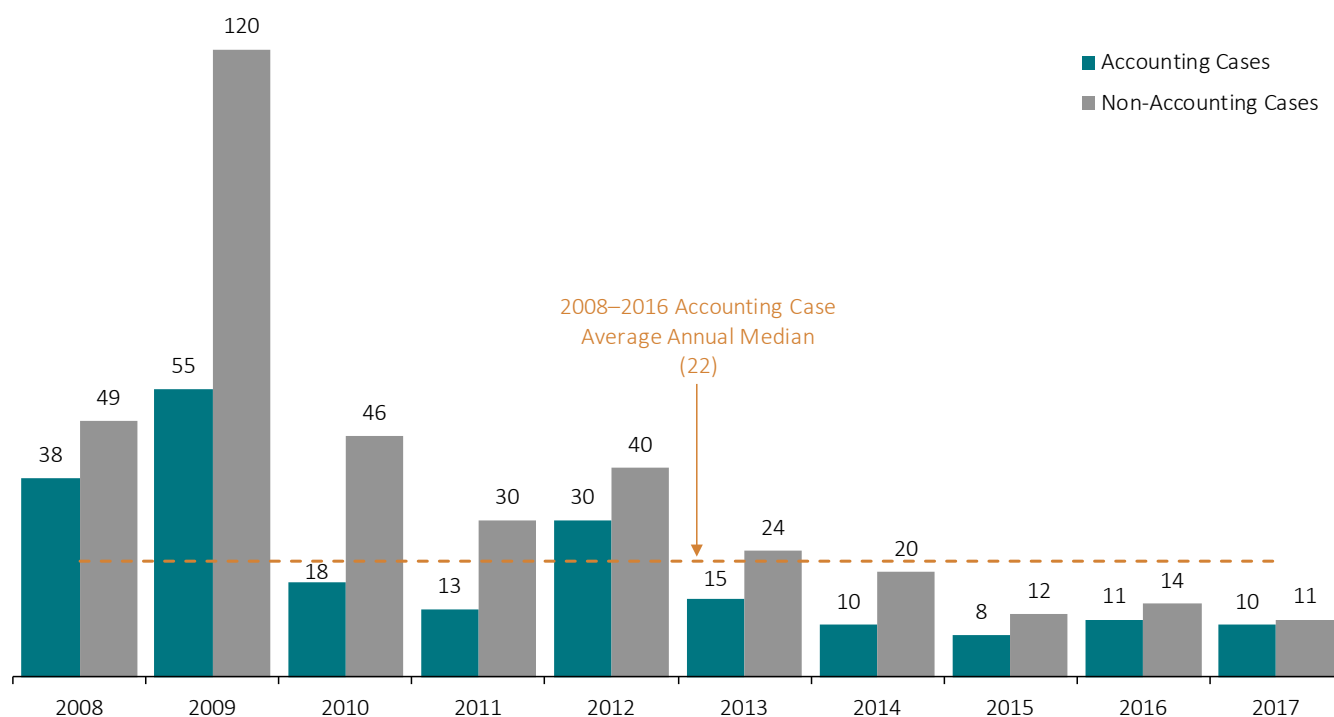
Figure 20: Median Settlements as a Percentage of “Simplified Tiered Damages” in Cases Involving GAAP Issues



Appendices

Appendix 1: Traditional Accounting Cases—Annual Median Lag between Class End Date and Case Filing Date

(Number of Days)



Appendix 2: Traditional Accounting Cases and Exchange

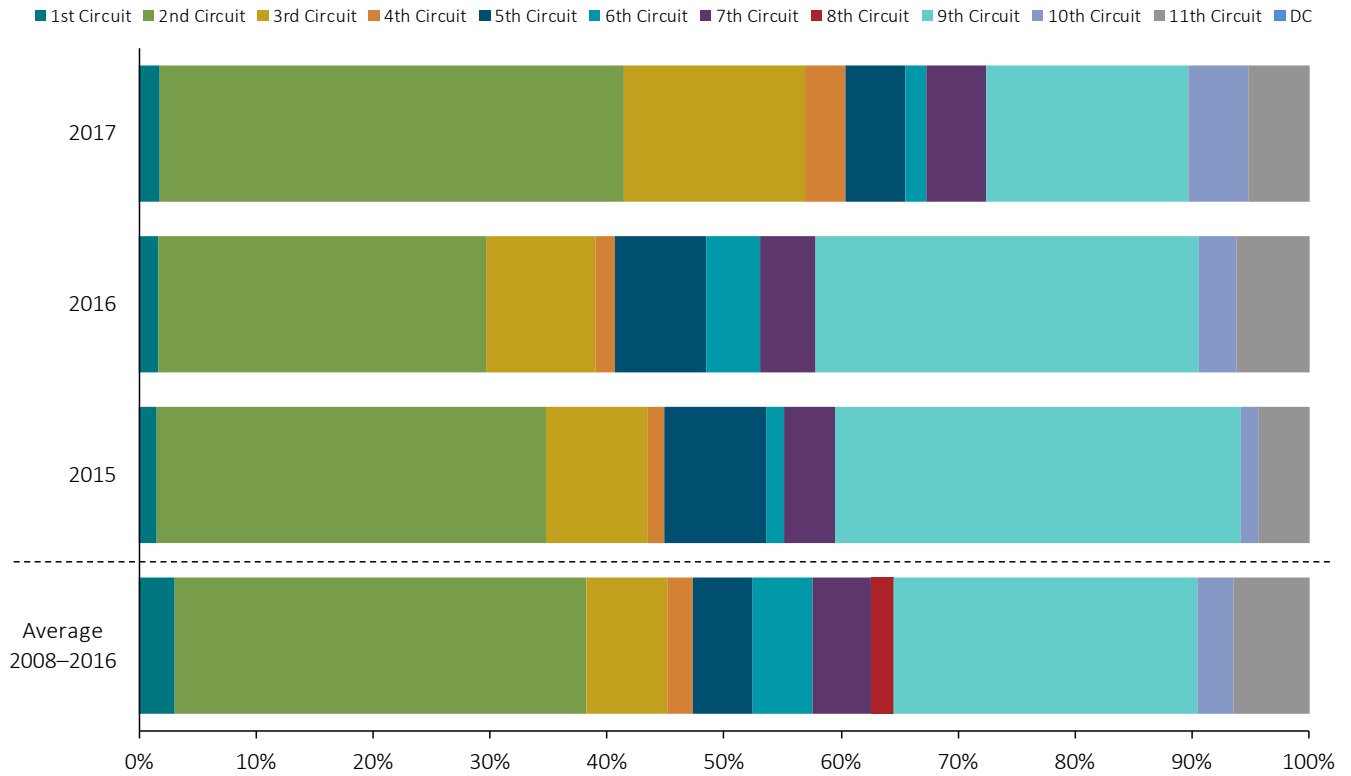
(Dollars in Millions)

	Average 2008–2016		2016		2017	
	NYSE/Amex	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ
Total Filings	263	253	32	30	24	28
Annual Average Filings	29	28	-	-	-	-
Disclosure Dollar Losses (DDL)						
Total	\$237,592	\$103,061	\$39,302	\$8,704	\$9,469	\$10,156
Annual Average	\$26,399	\$11,451	-	-	-	-
Average across Cases	\$970	\$411	\$1,268	\$300	\$412	\$376
Median across Cases	\$163	\$85	\$276	\$64	\$168	\$89

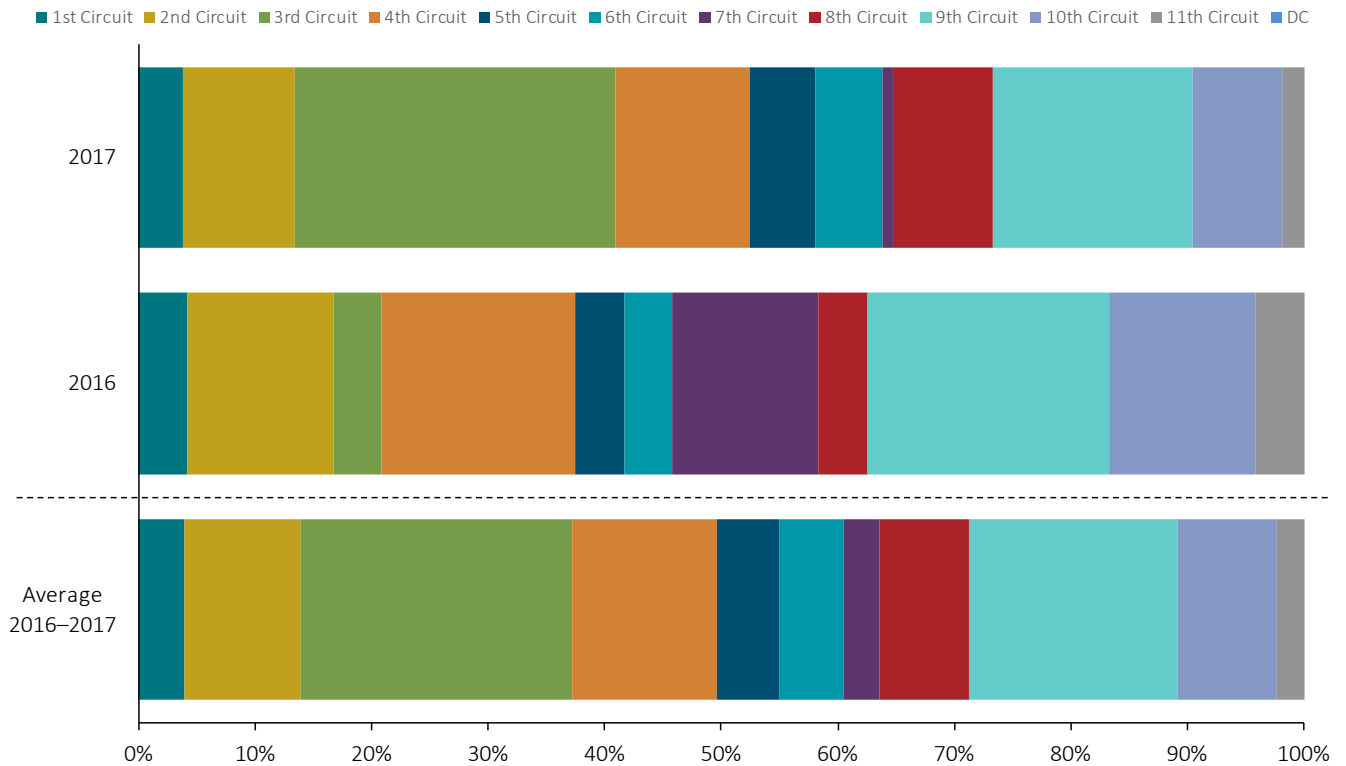
Notes:

1. Average and median numbers are calculated only for filings with DDL data.
2. NYSE Amex was renamed NYSE MKT in May 2012.
3. This table shows only accounting case filings against issuers listed on indicated exchanges.

Appendix 3: Traditional Accounting Cases by Circuit



Appendix 4: Nontraditional Accounting Cases by Circuit



Note: The average case filings by circuit is computed for the past two years. Prior to 2015 there were few nontraditional filings.

Research Sample

This report utilizes the databases described in *Securities Class Action Filings—2017 Year in Review* and *Securities Class Action Settlements—2017 Review and Analysis*.

The filings analysis in this report is based on data identified by the Stanford Law School Securities Class Action Clearinghouse (securities.stanford.edu) as of January 12, 2018.

Endnotes

- ¹ Filings are considered “accounting filings” if they involve allegations related to Generally Accepted Accounting Principles (GAAP) violations, auditing violations, or weaknesses in internal control over financial reporting.
- ² Filings are considered “M&A accounting filings” if they involve merger and acquisition transactions and include alleged violations of Section 14 and Section 20(a) and accounting-related allegations.
- ³ Filings are considered “traditional” if they involve alleged violations of Rule 10b-5, Section 11, and/or Section 12(a)(2).
- ⁴ For related discussion, see *Securities Class Action Settlements—2017 Review and Analysis*, Cornerstone Research, 2018.
- ⁵ For related discussion, see *Accounting Class Action Filings and Settlements—2016 Review and Analysis*, Cornerstone Research, 2017, page 3; and Elaine Harwood, Frank Mascari, and Laura Simmons, “Renewed SEC Focus on Non-GAAP Measures: 1 Year Later,” *Law360*, May 16, 2017, <https://www.cornerstone.com/Publications/Articles/SEC-Renewed-Focus-On-Non-GAAP-Measures-One-Year-Later>.
- ⁶ The reconciliation of non-GAAP to GAAP measures is a requirement that the SEC highlighted in mid-2016 when it announced an increased focus on non-GAAP measures. See U.S. Securities and Exchange Commission, *Final Rule: Conditions for Use of Non-GAAP Financial Measures*, 17 CFR Parts 228, 229, 244, and 249, <https://www.sec.gov/rules/final/33-8176.htm>, Item 10(e)(1)(i)(B), which states that whenever one or more non-GAAP financial measures are included in a filing with the Commission, the registrant must include “[a] reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward-looking information, of the differences between the non-GAAP financial measure disclosed or released with the most directly comparable financial measure or measures calculated and presented in accordance with GAAP identified in paragraph (e)(1)(i)(A) of this section.”
- ⁷ As discussed in *Securities Class Action Filings—2017 Year in Review*, the Delaware Court of Chancery’s rejection of a disclosure-only settlement in *Trulia* in January 2016 may have resulted in shifting of merger objection lawsuits from state to federal venues.
- ⁸ Olga Usvyatsky, “Early Indicators Predict an Uptick in Revenue Recognition Accounting Failures,” *Audit Analytics*, February 6, 2018, <https://www.auditanalytics.com/blog/early-indicators-predict-an-uptick-in-revenue-recognition-accounting-failures/>.
- ⁹ See *Securities Class Action Settlements—2017 Review and Analysis*, Cornerstone Research, 2018.
- ¹⁰ See *Securities Class Action Filings—2017 Year in Review*, Cornerstone Research, 2018, page 2.
- ¹¹ Traditional cases are the primary focus of the remainder of this report because many of the metrics that are reported (e.g., filing lag and DDL) apply only to traditional cases. As such, unless specified otherwise, all subsequent references to accounting cases for both filings and settlements information are based on these cases (i.e., exclude cases not alleging Rule 10b-5, Section 11, and/or Section 12(a)(2) claims).
- ¹² As previously noted, references to accounting cases in this chart (and all subsequent charts) are based only on traditional cases (i.e., cases involving Rule 10b-5, Section 11, and/or 12(a)(2) claims).
- ¹³ References to allegations or announcements of internal control weaknesses throughout this report refer to internal controls over financial reporting.
- ¹⁴ The accounting allegations and issues analyzed are: (1) GAAP—cases with allegations of GAAP violations; (2) Write-Down—cases with allegations involving an asset write-down or reserve increase; (3) Restatement—cases involving a restatement (or announcement of a restatement) of financial statements; and (4) Accounting Irregularities—cases in which the issuer defendant has reported the occurrence of accounting irregularities (intentional misstatements or omissions) in its financial statements.
- ¹⁵ See *Securities Class Action Settlements—2017 Review and Analysis*, Cornerstone Research, 2018, page 6. “Simplified tiered damages” provides a measure of potential shareholder losses that allows for consistency across a large volume of cases but is not intended to represent actual economic losses borne by shareholders.

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