Research Sample

• The Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research has identified 3,120 federal securities class action filings between January 1, 1996, and June 30, 2010.

• These filings include 313 IPO Allocation filings, 67 Analyst filings, 26 Mutual Fund filings, 40 Options Backdating filings, 23 Ponzi filings, and 201 Credit-Crisis filings; the last category includes 21 Auction Rate Securities filings.

• The sample used in this report excludes IPO Allocation, Analyst, and Mutual Fund filings.

• Multiple filings related to the same allegations against the same defendant(s) are consolidated in the database through a unique record indexed to the first identified complaint.
OVERVIEW

Federal securities fraud class action filing activity decreased in the first six months of 2010, continuing a trend that started in early 2009. In the first half of 2010, the number of federal securities class action filings (filings or class actions) fell to the lowest semiannual level since the first half of 2007. There were 71 filings in the first half of 2010, representing a 15.5 percent decrease in activity from 84 filings in each half of 2009 (Figure 1).\(^1\) The decline in filings can be attributed to several factors, including a severe drop-off in filings associated with the recent credit crisis and the absence of any filings related to the Madoff fraud and other Ponzi schemes that occurred in 2009. The median lag time between the end of the class periods and the filing dates decreased to 25 days, slightly below the historical median of 28 days between 1997 and 2009, and well below the spike in median lag time of 112 days during the second half of 2009.

Although the credit crisis no longer dominated filings during the first six months of 2010, litigation activity in the financial sector continued, as financial companies were defendants in 29.6 percent of the filings. The Heat Maps of S&P 500 Securities Litigation™ show that 5.1 percent of the S&P 500 companies in the Financials sector were named as defendants in new federal securities class actions in the first half of 2010. These companies represented 17.5 percent of that sector’s market capitalization. Annualized, this pace is roughly in line with the full year of 2009, when 11.9 percent of the S&P 500 Financials companies were targeted, representing 38.2 percent of that sector’s market capitalization.

The market capitalization declines associated with announcements at the end of the class periods have remained low since 2009. Although the Disclosure Dollar Loss (DDL) of $53 billion in the first half of 2010 represented a 51.4 percent increase from the second half of 2009, it is still short of the historical average of $67 billion between 1997 and 2009. There were four mega DDL filings that represented 67.1 percent of the DDL Index™ in the first half of 2010. In contrast, the market capitalization declines during the class period returned to the historical average over the 1997 through 2009 period. The Maximum Dollar Loss (MDL) in the first half of 2010 was $345 billion, which represented an increase of 73.4 percent from the level seen in the second half of 2009. Ten mega MDL filings represented 88.4 percent of the MDL Index™ in the period.\(^2\)

**Figure 1**

<table>
<thead>
<tr>
<th>CLASS ACTION FILINGS SUMMARY: SIX-MONTH PERIODS</th>
</tr>
</thead>
<tbody>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>Class Action Filings</td>
</tr>
<tr>
<td>Disclosure Dollar Loss ($ Billions)</td>
</tr>
<tr>
<td>Maximum Dollar Loss ($ Billions)</td>
</tr>
</tbody>
</table>

---

\(^1\) The indices and charts in this report exclude IPO Allocation, Analyst, and Mutual Fund filings. Filings consolidate multiple filings related to the same allegations against the same defendants and therefore represent unique legal actions.

\(^2\) Disclosure Dollar Loss and Maximum Dollar Loss are defined in the “Market Capitalization Losses” section of this report.
The Class Action Filings Index™ (CAF Index) reports 71 filings in the first half of 2010 (Figure 2). Filings related to the credit crisis continued to decrease during this period, with eight such filings between January 1 and June 30. In addition, there were no new filings related to the Madoff fraud and other Ponzi schemes during these six months. Similarly, lawsuits against exchange-traded funds declined substantially from 12 filings in 2009. There were only four such lawsuits in the first six months of 2010, all of which were filed against ProShares Funds. These four filings had been consolidated with ten previous filings against ProShares Funds in 2009 into one single filing.
If the filing frequency in the first half of 2010 continues for the remainder of the year, there will be a total of 143 filings in 2010, the second lowest annual number of filings since 1997. This total would represent a 14.9 percent decrease from 2009 and a 26.7 percent decline relative to the annual average for the 13 years ending December 2009 (Figure 3). Excluding Auction Rate Securities filings, credit-crisis filings in the first half of 2010 represent 11.3 percent of the total number of filings in this six-month period, a decrease from 31.5 percent in 2009 and 36.0 percent in 2008.

Figure 3

---

3 Annualized figures are based on 181 calendar days from January 1 to June 30, 2010, and 365 days in the full year of 2010.
The CAF Index shows that the quarterly number of filings has fluctuated in the past 12 months. From the third to the fourth quarter of 2009, the number of filings declined by 9.1 percent, and from the fourth quarter of 2009 to the first quarter of 2010, the number declined by 15.0 percent. During the second quarter of 2010, however, there was a slight increase of 8.8 percent in the quarterly number of filings.

Securities litigation activity continues to echo stock market volatility. The fourth quarter of 2008, a historic peak in stock market volatility as measured by the Chicago Board Options Exchange Volatility Index® (VIX), was associated with a flurry of securities class actions; in comparison, during the fourth quarter of 2006, the VIX was at its lowest point since its inception in the 1990s and was accompanied by a historically low number of filings (Figure 4).

Figure 4
The Class Action Filings-Unique Issuers Index™ (CAF-U Index) is a metric that tracks the number of unique issuers whose exchange-traded securities were involved in class actions. In the first half of 2010, the number of issuers targeted by filings remained low due to the overall low number of filings. The number of unique issuers as a percentage of the total number of filings held steady at an average of 93.1 percent between 1997 and 2007, and subsequently declined to 75.2 and 70.2 percent in 2008 and 2009, respectively. In the first half of 2010, however, the number of unique issuers as a percentage of the total number of filings increased to 80.3 percent.

This increase of unique issuers as a percentage of total filings reflects a decline in lawsuits related to non-exchange-traded securities, such as mortgage pass-through certificates and the Madoff fraud and other Ponzi schemes. Compared with 2008 and 2009, the first half of 2010 also had a lower number of multiple filings targeting securities issued by the same company. If the filing frequency from the first half of 2010 continues, the total number of filings in 2010 would fall 14.9 percent from the 2009 level, but the total number of unique issuers would decrease by only 2.5 percent (Figure 5).
NUMBER OF FILINGS continued

In the first half of 2010, the median lag time between the end of the class periods and the filing dates returned to a level slightly below the historical median filing lag of 28 days from 1997 through 2009. The median lag time was 25 days in the first half of 2010, which represents a 77.7 percent decrease from the median lag time of 112 days in the second half of 2009 (Figure 6). The 2010 median filing lag was also below the median filing lag of 47 days over the previous two years. This decline of median lag time is associated with a decline in the number of filings that have a six-month or longer lag time. There were 20 such filings in the first half of 2010, compared with 33 such filings in the second half of 2009. Historically, there has been an average of 20 such filings in each six-month period since 1997.

Figure 6

SEMIANNUAL MEDIAN LAG BETWEEN CLASS-END DATE AND FILING DATE
1997–2010 H1
HEAT MAPS

The Heat Maps of S&P 500 Securities Litigation™ facilitate analysis of securities class action activity by sector. We focus on companies in the S&P 500 Index, which represents 500 large, publicly traded companies in all major sectors. Starting with the composition of the S&P 500 Index at the beginning of each year, we examine two factors for each sector. First, what percent of these companies was subject to new securities class actions in federal court during the year? Second, of the total market capitalization of the companies, what share was accounted for by companies named in new securities class actions?4

Overall, about one out of every 41 companies in the S&P 500 Index at the beginning of 2010 were defendants in a federal securities class action filed in the first half of 2010, compared with about one out of every 22 companies in the full year of 2009 (Figure 7).5

Figure 7

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average 00–09</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>5.3%</td>
<td>3.3%</td>
<td>2.4%</td>
<td>10.2%</td>
<td>4.6%</td>
<td>3.4%</td>
<td>10.3%</td>
<td>4.4%</td>
<td>5.7%</td>
<td>4.5%</td>
<td>3.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>4.3%</td>
<td>7.3%</td>
<td>8.3%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.7%</td>
<td>8.6%</td>
<td>2.8%</td>
<td>0.0%</td>
<td>2.6%</td>
<td>4.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Energy</td>
<td>1.4%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>8.0%</td>
<td>0.0%</td>
<td>4.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>2.6%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Financials</td>
<td>11.7%</td>
<td>4.2%</td>
<td>1.4%</td>
<td>16.7%</td>
<td>8.6%</td>
<td>19.3%</td>
<td>7.3%</td>
<td>2.4%</td>
<td>10.3%</td>
<td>31.2%</td>
<td>11.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Health Care</td>
<td>9.5%</td>
<td>2.6%</td>
<td>7.1%</td>
<td>15.2%</td>
<td>10.4%</td>
<td>10.6%</td>
<td>10.7%</td>
<td>6.9%</td>
<td>12.7%</td>
<td>13.7%</td>
<td>3.7%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Industrials</td>
<td>3.8%</td>
<td>2.8%</td>
<td>0.0%</td>
<td>6.0%</td>
<td>3.0%</td>
<td>8.5%</td>
<td>1.8%</td>
<td>0.0%</td>
<td>5.8%</td>
<td>3.6%</td>
<td>6.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>6.9%</td>
<td>9.7%</td>
<td>18.2%</td>
<td>10.3%</td>
<td>5.2%</td>
<td>3.6%</td>
<td>7.5%</td>
<td>9.0%</td>
<td>2.6%</td>
<td>2.9%</td>
<td>0.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Materials</td>
<td>1.2%</td>
<td>4.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>2.9%</td>
<td>0.0%</td>
<td>3.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>8.3%</td>
<td>23.1%</td>
<td>18.7%</td>
<td>15.4%</td>
<td>8.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>11.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Services</td>
<td>7.5%</td>
<td>5.0%</td>
<td>7.9%</td>
<td>40.5%</td>
<td>2.8%</td>
<td>5.7%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>3.1%</td>
<td>3.2%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>All S&amp;P 500 Companies</td>
<td>6.4%</td>
<td>5.0%</td>
<td>5.6%</td>
<td>12.0%</td>
<td>5.2%</td>
<td>7.2%</td>
<td>6.6%</td>
<td>3.6%</td>
<td>5.4%</td>
<td>9.2%</td>
<td>4.6%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

* The chart is based on the composition of the S&P 500 as of the last trading day of the previous year.

Sectors are based on the Global Industry Classification Standard (GICS®).

Percent of Companies Subject to New Filings equals the number of companies subject to new securities class action filings in federal courts in each sector divided by the total number of companies in that sector.

4 In this report, we switched from the Bloomberg Industry Classification Standard to assign the 500 companies to sectors to the Global Industry Classification Standard® (GICS®), created by Standard & Poor’s.

5 In Figures 7 and 8, when we refer to the number and market capitalization of companies involved in new securities litigation, we have consolidated all new filings against the same company so that the totals reflect unique companies.
HEAT MAPS continued

The 2.4 percent of the S&P 500 companies subject to new filings in the first half of 2010 accounted for 4.9 percent of the market capitalization of the S&P 500 Index at the beginning of 2010 (Figure 8). The Financials sector continued to be strongly affected by new securities litigation in the first half of 2010. The intensity of filing activity against Financials firms in the S&P 500 is roughly comparable between the full year of 2009 and first half of 2010. In the first half of 2010, 5.1 percent of the S&P 500 Financials companies were named as defendants. These companies represented 17.5 percent of that sector’s market capitalization. In the full year of 2009, 11.9 percent of the S&P 500 companies in the Financials sector were subject to new filings. These companies represented 38.2 percent of that sector’s market capitalization.

Figures 7 and 8 reveal a pick-up in filings for companies in the Health Care and Energy sectors of the S&P 500 Index. In the first half of 2010, 7.7 percent of the S&P 500 Health Care companies were involved in new filings. These companies represented 15.1 percent of the market capitalization in the Health Care sector. This compares to 3.7 percent of the S&P 500 Health Care companies or 1.7 percent of the market capitalization in the Health Care sector involved in new filings in 2009. In the Energy sector, 7.7 percent of the S&P 500 companies were targeted in the first half of 2010, compared with 2.6 percent in the full year of 2009. These companies represented 3.3 percent and 0.9 percent of market capitalization of the S&P 500 Energy sector in the first half of 2010 and the full year of 2009, respectively. At the same time, there was a substantial drop-off in filings against Industrials companies in the S&P 500 Index, with no filings in this sector in the first half of 2010. This compares to 6.9 percent of the S&P 500 Industrials companies or 23.2 percent of the market capitalization in the Industrials sector involved in new filings in 2009.

Figure 8

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>7.5%</td>
<td>6.5%</td>
<td>1.3%</td>
<td>24.7%</td>
<td>2.0%</td>
<td>7.9%</td>
<td>5.7%</td>
<td>8.9%</td>
<td>4.4%</td>
<td>7.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5.6%</td>
<td>34.5%</td>
<td>6.3%</td>
<td>0.3%</td>
<td>2.3%</td>
<td>0.1%</td>
<td>11.4%</td>
<td>0.8%</td>
<td>0.0%</td>
<td>2.6%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Energy</td>
<td>3.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.7%</td>
<td>0.0%</td>
<td>44.9%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Financials</td>
<td>23.9%</td>
<td>3.3%</td>
<td>0.8%</td>
<td>29.2%</td>
<td>19.9%</td>
<td>46.1%</td>
<td>22.2%</td>
<td>8.2%</td>
<td>18.1%</td>
<td>55.0%</td>
<td>38.2%</td>
</tr>
<tr>
<td>Health Care</td>
<td>16.8%</td>
<td>11.0%</td>
<td>5.4%</td>
<td>35.2%</td>
<td>16.3%</td>
<td>24.1%</td>
<td>10.1%</td>
<td>18.1%</td>
<td>22.5%</td>
<td>20.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Industrials</td>
<td>8.7%</td>
<td>3.9%</td>
<td>0.0%</td>
<td>13.3%</td>
<td>4.6%</td>
<td>8.8%</td>
<td>5.6%</td>
<td>0.0%</td>
<td>2.2%</td>
<td>26.4%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>9.5%</td>
<td>8.5%</td>
<td>37.6%</td>
<td>5.7%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>12.4%</td>
<td>9.9%</td>
<td>4.2%</td>
<td>1.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Materials</td>
<td>1.6%</td>
<td>8.6%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.4%</td>
<td>0.0%</td>
<td>5.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>12.5%</td>
<td>39.5%</td>
<td>13.3%</td>
<td>19.9%</td>
<td>4.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Utilities</td>
<td>9.7%</td>
<td>5.6%</td>
<td>17.4%</td>
<td>51.0%</td>
<td>4.3%</td>
<td>4.8%</td>
<td>5.6%</td>
<td>0.0%</td>
<td>5.5%</td>
<td>4.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>All S&amp;P 500 Companies</td>
<td>11.8%</td>
<td>11.1%</td>
<td>10.9%</td>
<td>18.8%</td>
<td>8.0%</td>
<td>17.7%</td>
<td>10.7%</td>
<td>6.7%</td>
<td>8.2%</td>
<td>16.2%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

The chart is based on the market capitalizations of the S&P 500 companies as of the last trading day of the previous year. If the market capitalization on the last trading day is not available, the average fourth-quarter market capitalization is used.

Percent of Market Capitalization: Subject to New Filings is defined as the total market capitalization of companies subject to new securities class action filings in federal courts in each sector divided by the total market capitalization of all companies in that sector.
MARKET CAPITALIZATION LOSSES

To measure changes in the size of class action filings, we track market capitalization losses for defendant firms during and at the end of class periods. Declines in market capitalization may be driven by market, industry, and firm-specific factors. To the extent that the observed losses reflect factors unrelated to the allegations in class action complaints, indices based on class period losses would not be representative of potential defendant exposure in class actions. This is especially relevant for the post-Dura securities litigation environment. This report tracks market capitalization losses at the end of each class period using DDL and market capitalization losses during each class period using MDL.

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. MDL is the dollar value change in the defendant firm’s market capitalization from the trading day with the highest market capitalization during the class period to the trading day immediately following the end of the class period. DDL and MDL should not be considered indicators of liability or measures of potential damages. Instead, they estimate the impact of all of the information revealed during or at the end of the class period, including information unrelated to the litigation.

In the first half of 2010, we observed substantial increases in both DDL and MDL compared with the previous six-month period; however, both measures remained below historical averages.

Figure 9

DISCLOSURE DOLLAR LOSS INDEX™: SIX-MONTH PERIODS
1997–2010 H1
Dollars in Billions

---

6 Market capitalization measures are calculated for publicly traded common equity securities, closed-ended mutual funds, and exchange-traded funds only.

7 In April 2005 the Supreme Court ruled that plaintiffs in a securities class action are required to plead a causal connection between alleged wrongdoing and subsequent shareholder losses.
MARKET CAPITALIZATION LOSSES continued

The Disclosure Dollar Loss Index™ (DDL Index) tracks the running sum of DDL for all class actions filed in a given half year (Figure 9). The DDL Index shows that disclosure losses have remained low since the first half of 2009 compared with the semiannual average of $67 billion for the 13 years ending December 2009. The low DDL Index is consistent with the relatively low number of filings in the recent six-month periods. In the first half of 2010, however, the DDL Index totaled $53 billion, representing a 51.4 percent increase from the DDL Index of $35 billion in the second half of 2009. If this level of disclosure losses continues throughout 2010, the DDL Index for the year will be $108 billion, compared with a DDL Index of $84 billion in the full year of 2009. While the number of credit-crisis filings dropped substantially in the first half of 2010 (eight filings), the $12 billion DDL attributed to credit-crisis filings is higher than the DDL of $9 billion in the second half of 2009 (16 filings, excluding Auction Rate Securities filings). Roughly 96 percent of the $12 billion DDL for credit-crisis filings in the first half of 2010, however, is from a single filing.

The Maximum Dollar Loss Index™ (MDL Index) shows that market value losses for filings in the first half of 2010 increased sharply, compared with the second half of 2009 and almost returned to the historical average (Figure 10). The MDL Index in the first half of 2010 totaled $345 billion, 73.4 percent higher than the MDL Index of $199 billion in the second half of 2009 and only 0.9 percent below the semiannual average for the 13 years ending December 2009. As discussed in the following “Mega Filings” section of this report, a small number of filings represented a large portion of the MDL Index. This resulted in a sharp increase in MDL in the first half of 2010 despite a 15.5 percent decrease in the number of filings from the second half of 2009.
MARKET CAPITALIZATION LOSSES continued

Figure 11 provides summary statistics for 2010 filings compared with the previous three six-month periods and the historical average from 1997 through 2009. Both average and median DDL in the first half of 2010 have returned to the level seen during period from the second half of 2008 to the first half of 2009. The average DDL in the first half of 2010 was 40.8 percent higher compared with the average DDL in the 13 years ending December 2009. The median percent DDL of 14.0 percent is at its lowest level since the first half of 2006, when the median percent DDL was 13.5 percent.\(^8\) This drop in the median percent DDL to 2006 levels is notable because the overall volatility of the market remains elevated, as shown in Figure 4. One possible explanation for the simultaneously high market volatility and low median percent DDL is that plaintiffs have lowered the threshold for the percent DDL viewed as sufficient to initiate litigation. There are two possible explanations for the lower percent DDL threshold. First, plaintiffs may believe that recently filed cases will have lower settlement values because there is less at stake or they may be filling the pipeline by bringing weaker claims. Second, plaintiffs may believe that recently filed cases have stronger merits and are therefore profitable to file even if percent DDLs are lower. It will likely take several years before the data are sufficient to distinguish between these hypotheses.

The median MDL of $0.67 billion in the first half of 2010 was 28.0 percent lower than the second half of 2009 and is comparable to the 13-year semiannual average ending December 2009.

\(^8\) The percent DDL is the percentage stock price decline at the end of the class period.
MEGA FILINGS

An analysis of mega filings, as measured by MDL and DDL, shows that relatively few filings account for most of the total market capitalization losses associated with class actions. Compared with previous six-month periods, there were significantly more mega filings in the first half of 2010 that made up an even larger portion of the DDL Index and MDL Index.

Disclosure Dollar Loss

In the first half of 2010, there were four mega DDL filings—filings with a DDL of $5 billion or more. These four filings accounted for $36 billion or 67.9 percent of the DDL Index in the first half of 2010. One of the four mega DDL filings was related to the credit crisis. In 2009 three mega filings represented only 49.3 percent of the DDL Index and included one filing related to the credit crisis. Between 1997 and 2009 mega filings have represented 56.7 percent of the DDL Index.

Maximum Dollar Loss

Similarly, mega filings represented a large portion of the MDL Index in the first half of 2010. In the first half of 2010 there were ten mega MDL filings—filings with an MDL of $10 billion or more. These ten filings accounted for $305 billion or 88.4 percent of the MDL Index in the first half of 2010. Two of the ten mega MDL filings were related to the credit crisis, and five mega filings exceeded $25 billion. In the full year of 2009, there were eleven mega MDL filings, accounting for 72.6 percent of the MDL Index in that year. Six of the mega MDL filings in 2009 were related to the credit crisis, and six mega filings exceeded $25 billion. Between 1997 and 2009, mega filings represented 73.5 percent of the MDL Index.
NEW DEVELOPMENTS

“Foreign Cubed” Litigation

On June 24, 2010, the Supreme Court ruled in *Morrison v. National Australian Bank Ltd.* that the federal securities laws, as currently drafted, do not support claims by foreign investors against foreign firms over shares bought on foreign exchanges.9 The case involved Australian investors who had purchased shares of an Australian bank on an Australian stock exchange and wished to proceed with their class action in the United States because the alleged misconduct occurred at a former U.S. subsidiary of the Australian bank.10

Given the current litigation pipeline, the Supreme Court’s decision in *Morrison* is unlikely to have a significant aggregate effect on the volume of securities fraud litigation, though it is likely to raise additional obstacles for plaintiffs in specific cases. More broadly, foreign listings on U.S. exchanges continue to decline, and some large foreign issuers appear to be exiting U.S. stock markets.11 This larger trend, combined with the Supreme Court’s ruling in *Morrison*, suggests that the growth potential in U.S. securities fraud litigation against predominantly foreign firms may be limited, and that litigation against these entities may have to proceed in foreign courts.

On July 15, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Section 929P(b) of that Act has been popularly interpreted as “reversing” *Morrison* in cases brought by the SEC or Department of Justice, by granting jurisdiction to the district courts to hear “foreign cubed” cases such as *Morrison*. A prominent New York law firm recently noted that the Supreme Court’s decision in *Morrison* has nothing to do with the scope of the court’s jurisdiction. Instead, *Morrison* holds that the substance of the federal securities laws does not reach cases in which the alleged wrongful conduct occurred in the United States but in which there is no effect in the U.S. securities markets.12 According to this analysis, *Morrison* did not hold that the U.S. courts lack jurisdiction, and Section 929P(b), which covers jurisdiction without changing the substantive reach of the federal securities laws, therefore does not reverse the holding in *Morrison*. Thus, the impact of the Dodd-Frank Act on “foreign cubed” litigation is still uncertain.

Section 929Y of the Dodd-Frank Act directs the SEC to solicit public comment and to conduct a study “to determine the extent to which private rights of action” under the Exchange Act should have extraterritorial application. The Commission is directed to report the results of its study to Congress within 18 months.

---

NEW DEVELOPMENTS continued

Bank Investigations

In early 2010 the financial industry experienced increased governmental scrutiny of major banks and a wave of bank investigations, leading to concerns that further legal action could follow.13

In April, the SEC brought a civil fraud suit against Goldman Sachs, alleging that the firm designed a mortgage-bond portfolio without disclosing a client's role in choosing the portfolio’s investment.14 On July 15 the company agreed to pay $300 million in fines and $250 million in restitution to investors.15 The settlement does not cover charges against Fabrice P. Tourre, a Goldman Sachs employee named in the case.16

While this was the most publicized bank investigation in early 2010, other banks also reportedly faced increased scrutiny for similar alleged practices.17 The SEC will reportedly continue to investigate mortgage-related products structured by Goldman Sachs and other banks in recent years.18

Banks have been the targets of other investigations as well, including an investigation by the New York Attorney General of eight investment banks to determine whether they misled rating agencies in order to inflate mortgage securities ratings.19

---

Please direct any questions or requests for additional information to:

Alexander Aganin
650.853.1660 or aaganin@cornerstone.com