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IN COOPERATION WITH CORNERSTONE RESEARCH

NEWS RELEASE

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**Securities Class Action Filings Decrease Sharply in 2012,
According to Report by Cornerstone Research and Stanford Law School**

**Filings Related to Mergers and Acquisitions and Chinese Reverse Mergers Decline Substantially;
No New Credit Crisis–Related Class Actions Filed**

Boston and Stanford, Calif., January 23, 2013—Federal securities fraud class action filing activity decreased sharply in 2012, according to *Securities Class Action Filings—2012 Year in Review*, a semiannual report prepared by Cornerstone Research and the Stanford Law School Securities Class Action Clearinghouse. Only 152 federal securities class actions were filed in 2012 compared with 188 in 2011—the second-lowest number of annual filings in 16 years.

The decrease in total filings was largely due to declines in federal merger and acquisition (M&A) and Chinese reverse merger (CRM) filings. Together, they accounted for only 23 filings in 2012 compared with 74 in 2011. These waves of cases are most likely over, and future filings of these types are likely to remain at very low levels. In addition, 2012 was the first year in which there were no new filings related to the credit crisis.

Overall, filings in the financial sector continued to decrease, with 15 filings in 2012 compared with 25 in 2011 and 43 in 2010. Filing activity continued to be most prevalent against companies in the Consumer Non-Cyclical sector. Of the 49 filings in this sector, 33 were against healthcare, biotechnology, and pharmaceutical companies.

Continuing a pattern observed in 2011, fewer filings targeted very large companies in 2012. An analysis of S&P 500 companies named as defendants in securities class actions shows that only one out of every 29 was the subject of a new filing in 2012, making 2011 and 2012 the least litigious for S&P 500 companies in the past 13 years.

Data in the recently published SEC report on the Dodd-Frank whistleblower program provide potentially valuable insights for possible future securities litigation trends. From October 1, 2011, through September 30, 2012, the SEC received 3,001 whistleblower tips. The most common tip categories were Corporate Disclosure and Financials, Offering Fraud, and Market Manipulation. Together, these categories accounted for nearly 49 percent of all tips received.

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Commentary

Dr. John Gould, Senior Vice President of Cornerstone Research:

> What stood out in 2012 was the absence of a filing trend that influenced the total number of new cases. In the past there have been observable filing types, such as IPO cases, options backdating, mergers and acquisitions, or most recently, Chinese reverse mergers. But 2012 was not dominated by any such trend. Interestingly, in a year characterized by a dramatic drop in securities class action filings, the number of traditional Rule 10b-5 "stock drop" filings actually increased in 2012.

Professor Joseph Grundfest, Director of the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research:

> Is there a shoe waiting to drop? The SEC claims that the Dodd-Frank bounty program has helped it build a large inventory of high-quality leads as to fraud at publicly traded corporations. But will the Commission be able to transform these leads into quality enforcement actions? And, will private-party plaintiffs be successful in prosecuting "piggyback" claims that copy the Commission's complaints? The current quiet patch in private securities fraud litigation could certainly be unsettled if the Dodd-Frank bounty program generates a new wave of private claims.

Key Findings

Number and Type of Filings

- There were 152 federal securities class actions filed in 2012—21 percent below the annual average of 193 filings observed between 1997 and 2011.

- The number of filings decreased from 88 in the first half of 2012 to 64 in the second half—a 27 percent decrease. There was a substantial reduction in filing activity in the fourth quarter of 2012. The 25 filings in the fourth quarter represent the lowest number of filings in any quarter during the last 16 years.

- Compared with the last two years, federal filings associated with M&A transactions fell sharply to 13 cases in 2012, from 43 cases in 2011 and 40 cases in 2010. After the unusual jump in federal M&A filings in 2010 and 2011, these cases are now being pursued almost exclusively in state courts. CRM filings also declined substantially, from 31 filings in 2011 to 10 in 2012. The majority of these filings occurred in the first half of 2012.

Classification of Complaints

- The percentage of filings with Rule 10b-5 claims increased to 85 percent in 2012 from 71 percent in 2011. This is the highest percentage of Rule 10b-5 claims since 2008 and the second year-over-year increase since 2010.

- The number of filings in which no Rule 10b-5, Section 11, or Section 12(2) claims were made decreased from 23 percent in 2011 to 9 percent in 2012, due to the decline in federal M&A filings.

- The percentage of filings in 2012 alleging violations of GAAP decreased to 23 percent from 37 percent in 2011. This is below the previous five-year low of 26 percent observed in 2010. This decrease is due in part to a decline in CRM filings from 2011 to 2012. SEC enforcement actions related to financial fraud also declined over the same timeframe. It is also notable that a sizable portion of tips that the SEC received in 2012 related to financial disclosure issues.

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Filing Lag

- The median filing lag between the end of the class periods and the filing dates decreased from 36 days in the first six months of 2012 to 23 days in the second half of the year.

- Based on a sample of 2,472 filings from 1996 to 2010 that have been resolved, filings that occurred within 60 days of the alleged class period (faster filings) were more likely to settle early and less likely to reach a motion to dismiss than filings that took longer than 60 days (slower filings). Overall, slower filings were more likely to be dismissed.

Foreign Filings

- The number of filings against foreign issuers decreased from a historic high of 61 in 2011 (32 percent of total filings) to 32 in 2012 (21 percent of total filings). Despite the decrease, foreign filings in 2012 remained higher than the historical average of 9 percent, due primarily to non-CRM filings related to Chinese firms.

Heat Maps

- The Heat Maps of S&P 500 Securities Litigation™ show that only about one out of every 29 companies (3.4 percent) in the S&P 500 at the beginning of 2012 was a defendant in a class action filed during the year, compared with an average of about one out of every 16 companies (6.1 percent) between 2000 and 2011. The percentage of S&P 500 companies that were defendants in new filings in 2012 is comparable to the 13-year low observed in 2011.

- Historically, the larger companies in the S&P 500 have been more likely to be targets of class actions. That continued to be true in 2012, but to a lesser degree.

Disclosure Dollar Loss Index™ and Maximum Dollar Loss Index™

- In 2012, the market capitalization declines associated with announcements at the end of the class period remained below historical levels. The total Disclosure Dollar Loss (DDL) was $98 billion in 2012 compared with the historical annual average of $128 billion. There were four "mega DDL" filings in 2012 associated with combined end-of-class market capitalization losses of $43 billion.

- The total Maximum Dollar Loss (MDL), another measure of market capitalization losses, was $405 billion in 2012—well below the historical annual average of $669 billion. There were 10 "mega MDL" filings in 2012 with a total value of $224 billion.

Dr. Gould and Professor Grundfest are available to speak with the media about *Securities Class Action Filings—2012 Year in Review*. The full text of the report is available from Cornerstone Research and the Stanford Law School Securities Class Action Clearinghouse. An infographic that highlights several main findings from the report is available here.

Cornerstone Research and its affiliated testifying experts provide economic and financial analysis of complex issues arising in commercial litigation and regulatory proceedings. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse. Information about Cornerstone Research is available at www.cornerstone.com.

The Securities Class Action Clearinghouse is an authoritative source of data and analysis on the financial and economic characteristics of federal securities fraud class action litigation.

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