

Accounting Class Action Filings and Settlements

2015 Review and Analysis



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HIGHLIGHTS

In 2015, the number of securities class action filings with accounting allegations rose for the third consecutive year. These filings were accompanied by an increase of slightly more than 20 percent in market capitalization losses and the shortest median filing lag in 10 years. Although the number of accounting case filings was nearly evenly split between NYSE and NASDAQ firms, the market capitalization losses associated with cases filed against NYSE firms were over four-and-a-half times greater than the amount associated with cases filed against NASDAQ firms. For settlements of securities class actions, accounting cases once again represented the majority of the number and value of total settlements.

- There were 71 securities class action filings with accounting allegations in 2015, exceeding the average over the past 10 years of 67 filings. [\(page 2\)](#)
- The total Disclosure Dollar Loss (DDL) Index™ for accounting cases filed in 2015 rose to its second highest level in the last seven years. [\(page 3\)](#)
- In 2015, the median filing lag was eight days, the shortest lag in the last 10 years. [\(page 7\)](#)
- The number of accounting case filings that included allegations and announcements of internal control weaknesses increased to the highest level since 2006. [\(page 14\)](#)
- The number of accounting case settlements rose to the highest level since 2010. [\(page 8\)](#)
- The total settlement value for accounting cases in 2015 was almost three times the level for 2014. [\(page 9\)](#)

FIGURE 1: FILINGS AND SETTLEMENTS SUMMARY STATISTICS

2014–2015

(Dollars in Millions)

	Accounting Cases		Non-Accounting Cases	
	2015	2014	2015	2014
Filings Summary				
Number of Filings	71	69	118	101
Total Disclosure Dollar Losses	\$34,848.7	\$28,856.4	\$70,887.6	\$28,430.9
Settlements Summary				
Number of Settlements	50	44	30	19
Median Settlement	\$6.8	\$5.8	\$5.9	\$6.5
Average Settlement	\$52.6	\$20.6	\$13.4	\$8.6
Total Settlement Value	\$2,632.1	\$905.5	\$402.1	\$162.5

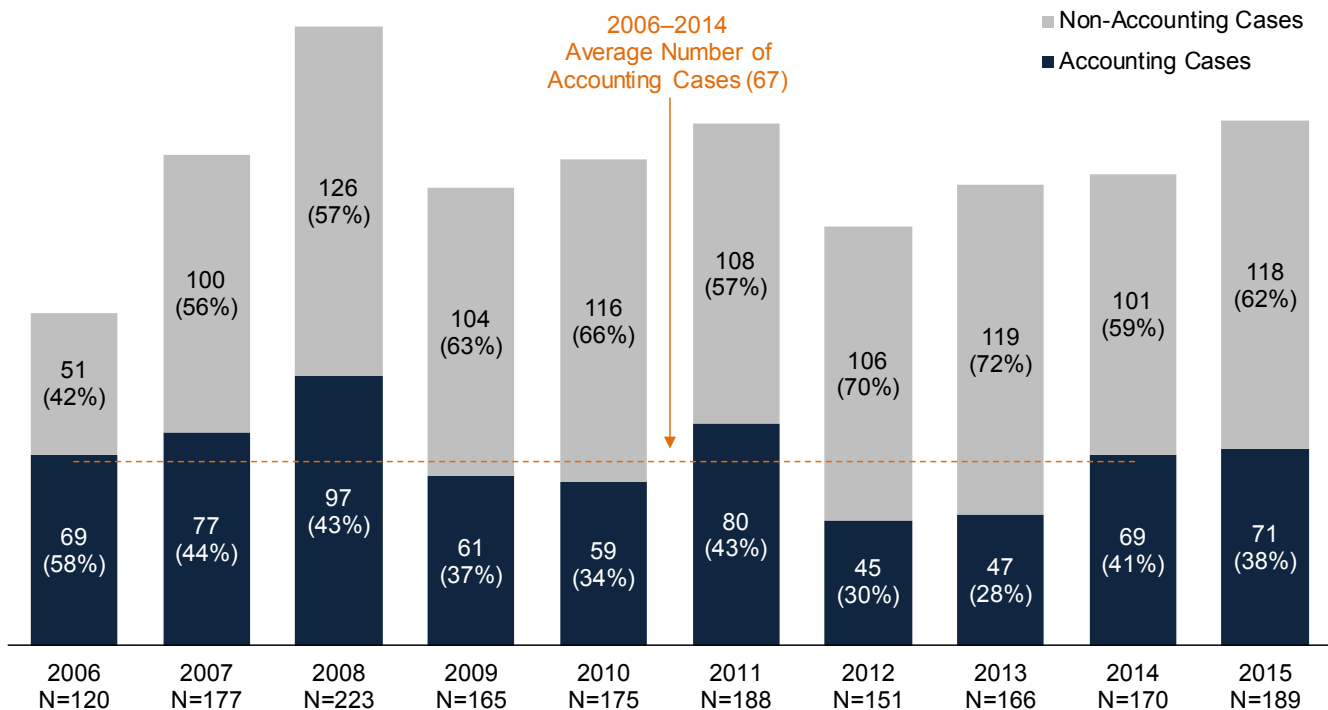
FILINGS AND SETTLEMENT ACTIVITY

FILINGS AND SHARE OF ACCOUNTING CASES

- There were 71 accounting case filings in 2015, a slight increase over the 69 cases filed in 2014.
- Accounting case filings in 2015 increased for the third year in a row and exceeded the 2006–2014 average of 67 filings.
- The increase in total filings since 2012 is not the result of a wave of “nontraditional” filings as observed in 2010 and 2011, when Chinese reverse merger¹ filings increased rapidly. Recent increases represent a return to the more traditional types of accounting-related filings.

The number of accounting case filings reached its highest level since 2011.

FIGURE 2: FILINGS AND SHARE OF ACCOUNTING CASES 2006–2015



FILINGS AND MARKET CAPITALIZATION LOSSES

Disclosure Dollar Loss (DDL) Index™

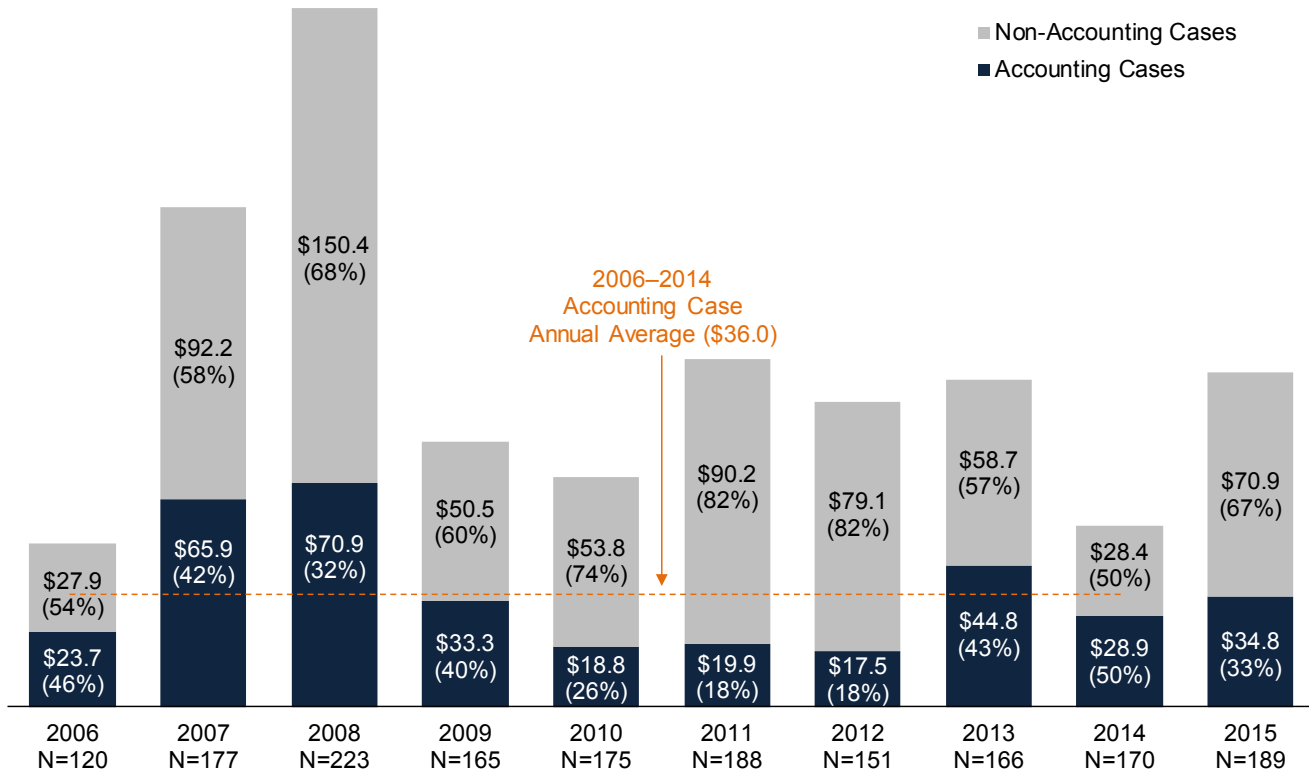
This index measures the aggregate DDL for all filings over a period of time. DDL is the dollar value change in the defendant firm’s market capitalization between the trading day immediately preceding the end of the class period and the trading day immediately following the end of the class period. DDL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

- The DDL Index for accounting case filings has fluctuated significantly over the past 10 years.
- The \$6 billion increase in the DDL Index for accounting case filings, an increase of slightly more than 20 percent, was the third largest increase in the last 10 years in both dollar and percentage terms.
- Cases with DDL of at least \$5 billion (mega DDL filings) returned in 2015 after an absence of these filings in 2014. Mega DDL accounting cases comprised 42 percent of the total mega case DDL for all filings in 2015.

The DDL Index for accounting case filings increased slightly more than 20 percent in 2015 to its second highest level in the last seven years.

FIGURE 3: CASE FILINGS DISCLOSURE DOLLAR LOSS INDEX™
2006–2015

(Dollars in Billions)

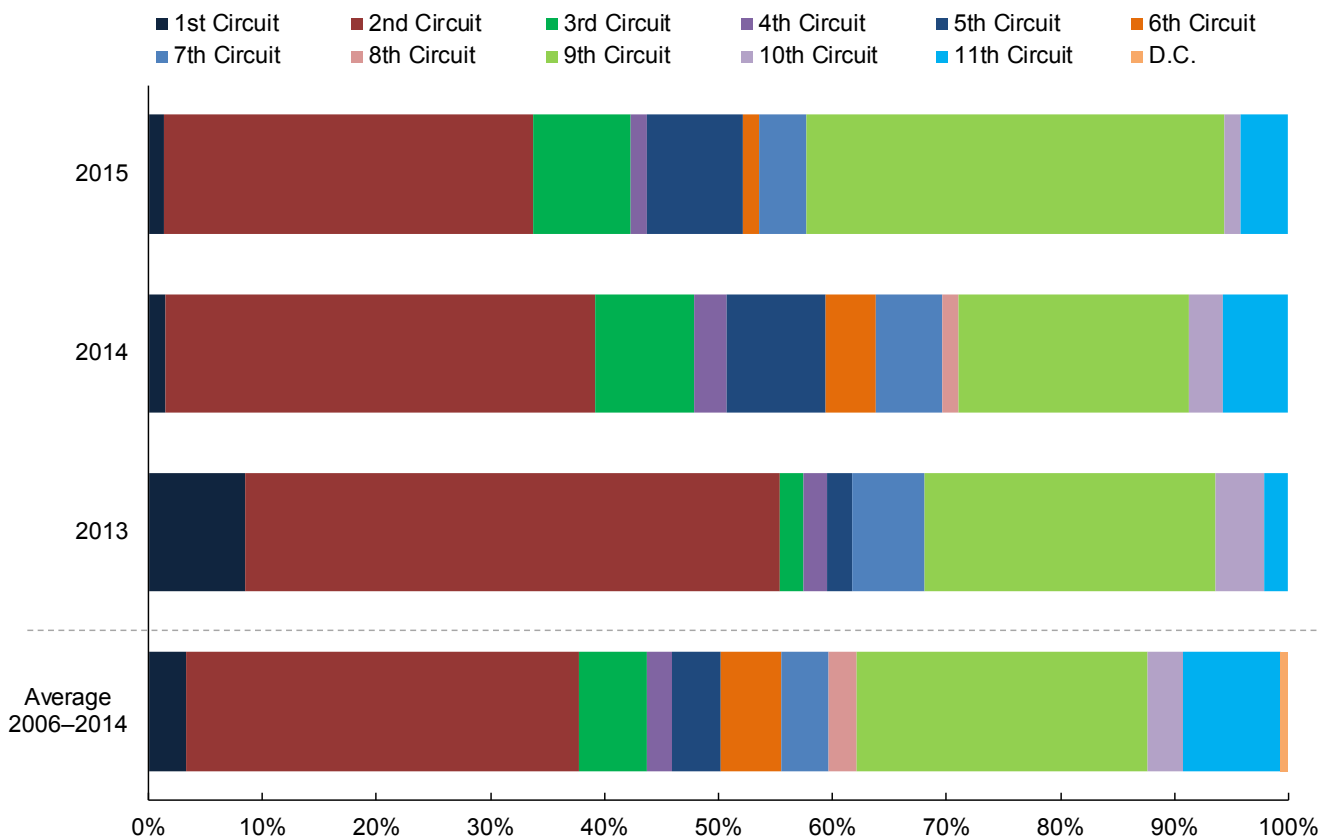


ACCOUNTING CASE FILINGS AND COURT CIRCUITS

- Historically, the largest number of accounting cases has been filed in the Second Circuit, and the total DDL of those cases has been the highest of all circuits.
- In 2015, 37 percent of accounting cases were filed in the Ninth Circuit—more than any other circuit.
- The total DDL of cases filed in the Ninth Circuit, however, trailed the totals for cases filed in the Second and Third Circuits in 2015.

The number of accounting case filings in the Ninth Circuit reached its highest level in the last 10 years.

FIGURE 4: ACCOUNTING CASE FILINGS BY COURT CIRCUIT 2006–2015



ACCOUNTING CASE FILINGS AND ISSUER EXCHANGE LISTINGS

- In 2015, the number of accounting case filings was almost evenly split between companies listed on the NYSE and NASDAQ.
- Total accounting case DDL for filings against NYSE-listed companies in 2015 was much larger than that of NASDAQ-listed companies—\$28.6 billion versus \$6.2 billion.
- In this respect, accounting cases in 2015 differ markedly from all class action filings, where the DDL for NYSE- and NASDAQ-listed companies was close in total value.²

The DDL for accounting case filings against NYSE firms more than doubled in 2015.

**FIGURE 5: ACCOUNTING CASE FILINGS BY ISSUER EXCHANGE LISTING
2006–2015**

(Dollars in Millions)

	2006–2014		2014		2015	
	NYSE/Amex	NASDAQ	NYSE	NASDAQ	NYSE	NASDAQ
Total Filings	271	263	33	29	32	35
Annual Average Filings	30	29				
Disclosure Dollar Loss						
Total	\$225,435	\$96,651	\$13,859	\$14,405	\$28,610	\$6,236
Annual Average	\$25,048	\$10,739				
Average across Cases	\$905	\$372	\$433	\$497	\$954	\$178
Median across Cases	\$168	\$73	\$173	\$170	\$101	\$97

Note:

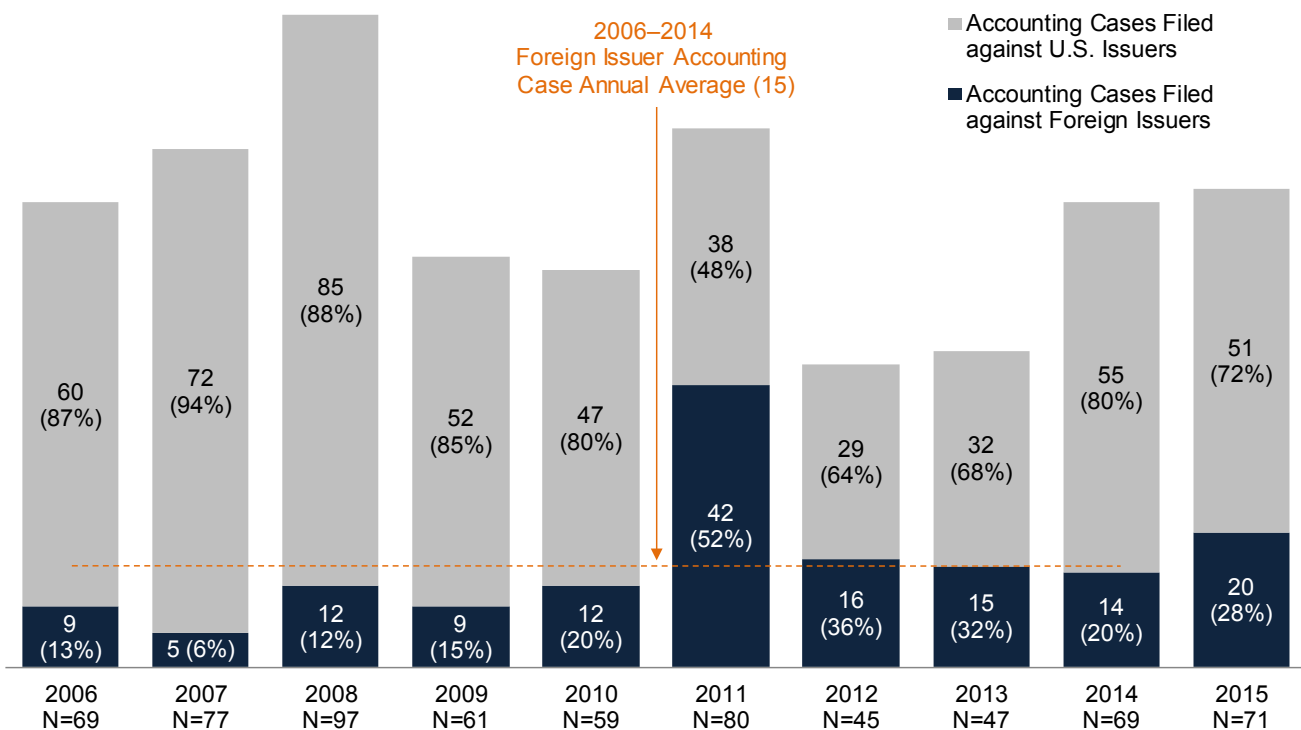
1. Average and median numbers are calculated only for filings with DDL data.
2. NYSE Amex was renamed NYSE MKT in May 2012.
3. This table shows only accounting case filings against issuers listed on major exchanges.

ACCOUNTING CASE FILINGS AGAINST COMPANIES WITH FOREIGN HEADQUARTERS

- The number of accounting cases against companies with headquarters outside the United States increased 43 percent to 20—the second highest level in the last 10 years.
- Of the accounting cases filed in 2015 against companies with foreign headquarters, 40 percent involved issuers reporting under International Financial Reporting Standards (IFRS) rather than U.S. GAAP.
- Despite the fact that there was only one filing related to a Chinese reverse merger in 2015, accounting cases against companies headquartered in China increased 75 percent from 2014 to 2015.

Accounting cases involving issuers reporting under IFRS have increased in recent years.

FIGURE 6: ANNUAL NUMBER OF ACCOUNTING CASE FILINGS BY LOCATION OF HEADQUARTERS 2006–2015



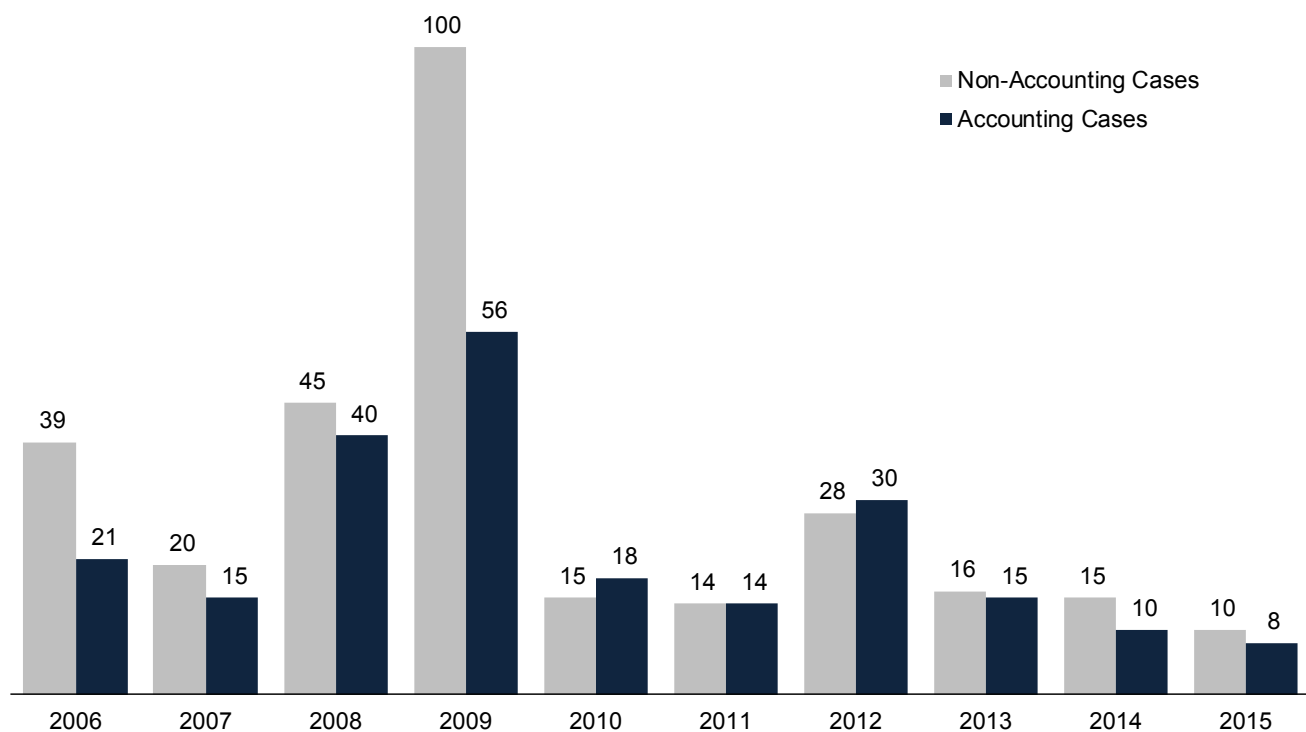
ACCOUNTING CASE FILINGS AND LAG BETWEEN CLASS PERIOD END AND CASE FILING

- The median filing lag for both accounting and non-accounting cases has been steadily decreasing since 2012.
- In 2015, the median filing lag for accounting case filings was eight days between the end of the alleged class period and the filing date of the lawsuit. For non-accounting cases, the median lag was 10 days.
- Only 11 percent of accounting class actions were filed more than six months (i.e., 180 days) after the end of the alleged class period—the second lowest percentage in the last 10 years.

The median filing lag for accounting class actions has never been shorter.

**FIGURE 7: MEDIAN LAG BETWEEN CLASS PERIOD END AND CASE FILING
2006–2015**

(In Number of Days)

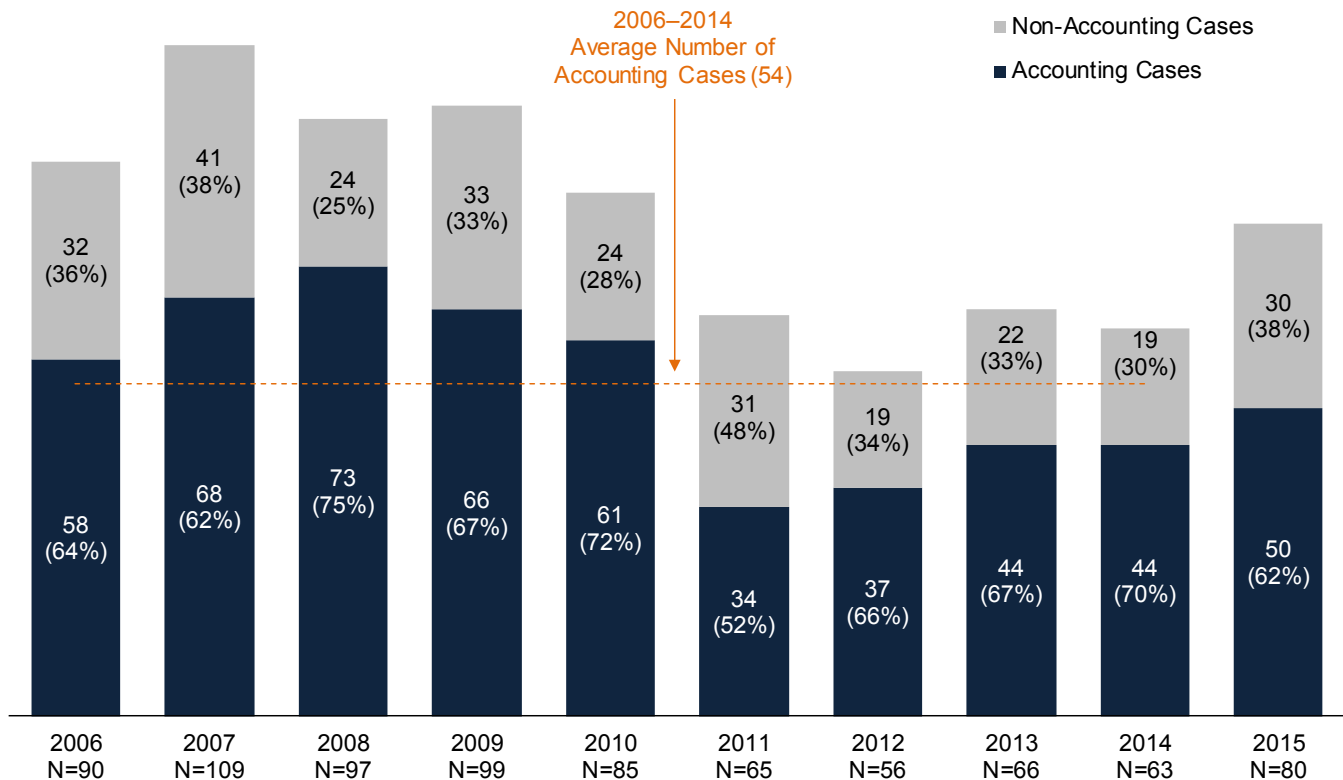


SETTLEMENTS AND SHARE OF ACCOUNTING CASES

- In 2015, the number of settlements involving accounting cases reached its highest level since 2010.
- Despite recent annual increases in accounting case settlements, overall, the number of accounting case settlements has remained lower than the levels for 2006 through 2010.
- The number of settlements involving Chinese reverse merger cases increased in 2015 to nine, almost 90 percent of which involved accounting allegations. Historically, these cases have tended to be relatively small, and this trend continued in 2015, with two-thirds settling for \$2 million or less.
- The proportion of accounting case settlements has been consistently above 50 percent of all settlements—higher than the percentage of total case filings represented by accounting cases (see page 2). This may be attributable to the fact that accounting cases are less likely to be dismissed (and thus more likely to settle),³ as well as the fact that accounting allegations are often added as cases progress beyond the initial complaint.

Following a steep decline in 2011, accounting case settlements have been rising.

FIGURE 8: FREQUENCY OF ACCOUNTING CASES AMONG SETTLED CASES 2006–2015



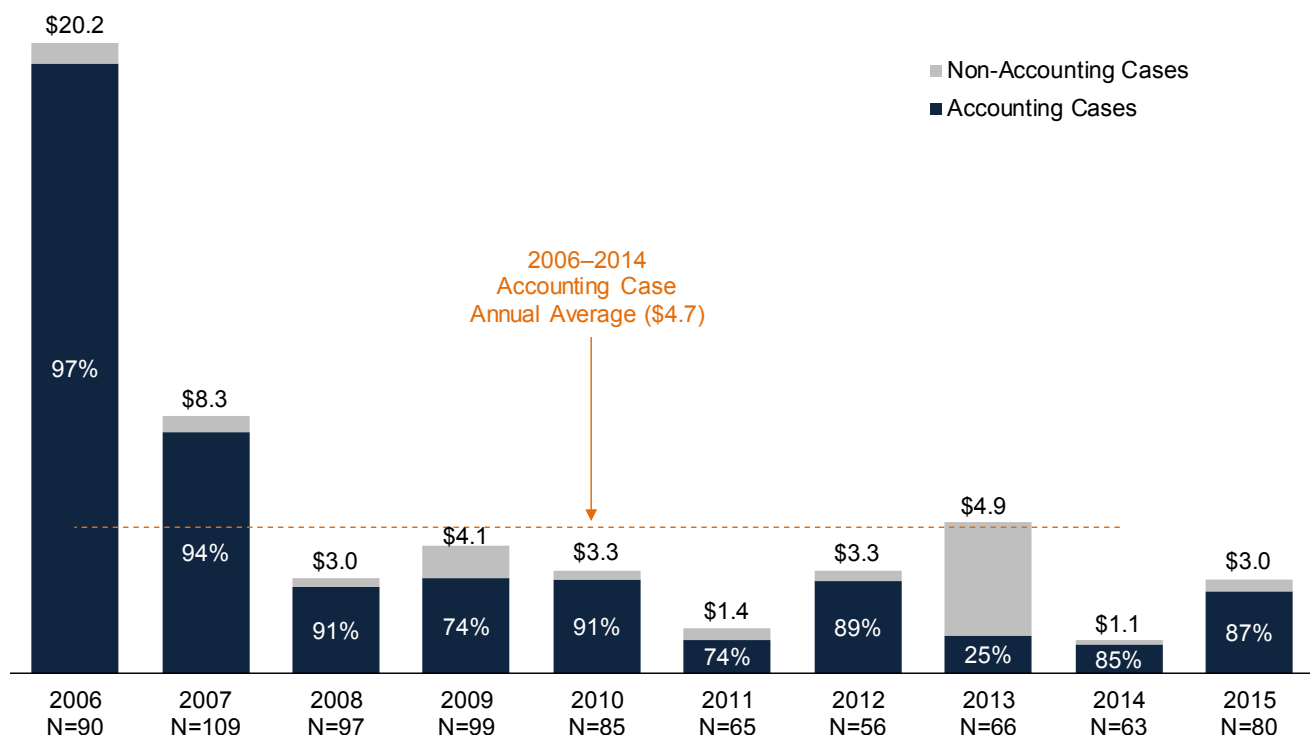
SETTLEMENT DOLLARS AND SHARE OF ACCOUNTING CASES

- Accounting case settlement dollars represented 87 percent of the total value of 2015 settlements, a slight increase over 2014.
- The increase in total settlement value in 2015 was due to growth in both the number of cases settled and the average settlement amount.
- Over the last 10 years, accounting cases have fluctuated in their proportion of the total value of settlement dollars. In 2015, the proportion was above the 2006–2014 average of 80 percent.

The total value of accounting case settlements in 2015 sharply rebounded from the low number in 2014.

FIGURE 9: SETTLEMENT DOLLARS AND SHARE OF ACCOUNTING CASES 2006–2015

(Dollars in Billions)



Settlement dollars are adjusted for inflation; 2015 dollar equivalent figures are used.

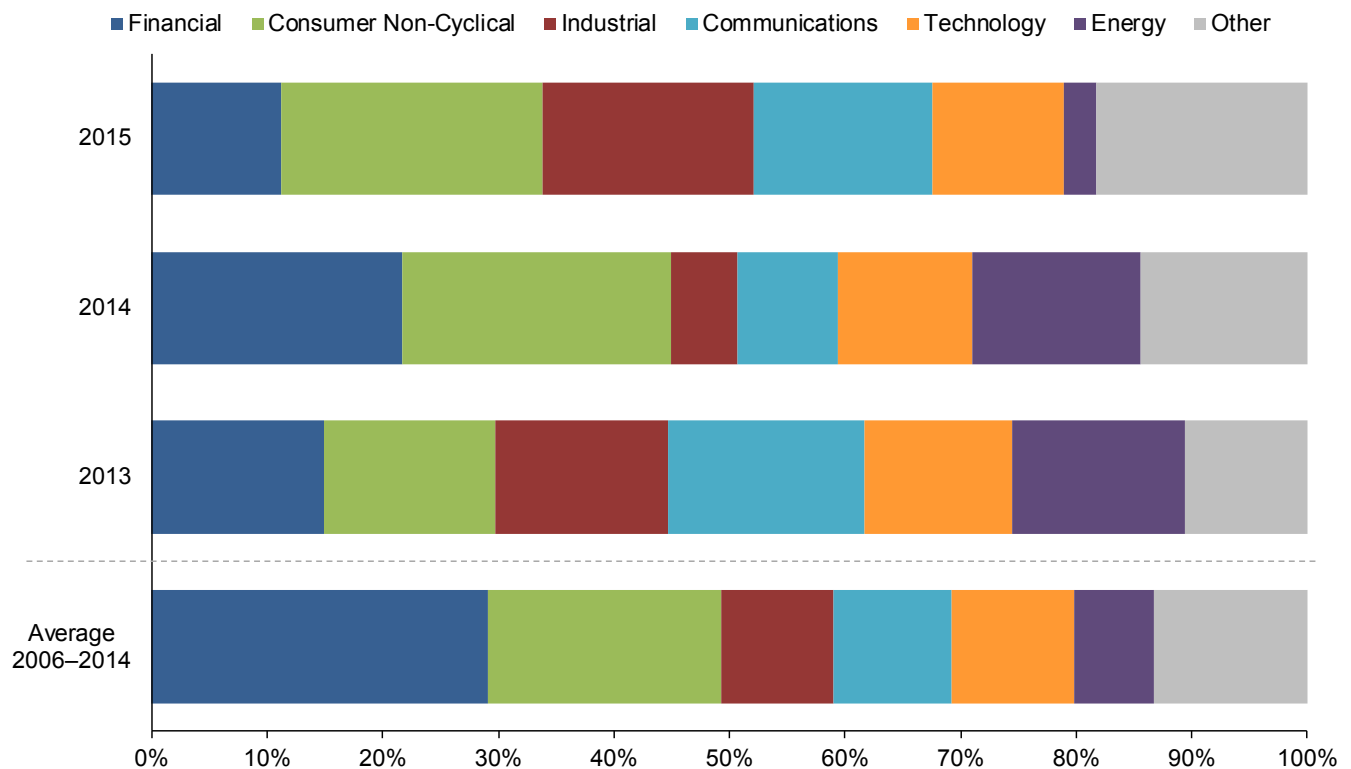
INDUSTRY SECTORS

ACCOUNTING CASE FILINGS AND INDUSTRY SECTORS

- In 2015 and historically, more than half of accounting cases filed in the Consumer Non-Cyclical sector were against Biotechnology, Pharmaceutical, and Healthcare companies.
- The number of cases filed in the Industrial sector in 2015 rose to twice its historical average.
- After more than doubling in 2014, the number of 2015 accounting case filings against companies in the Financial sector declined to 2012 and 2013 levels—and remained well below the historical average.

The number of accounting case filings against companies in the Consumer Non-Cyclical sector exceeded historical levels for the second year in a row.

FIGURE 10: ACCOUNTING CASE FILINGS BY INDUSTRY SECTOR 2006–2015

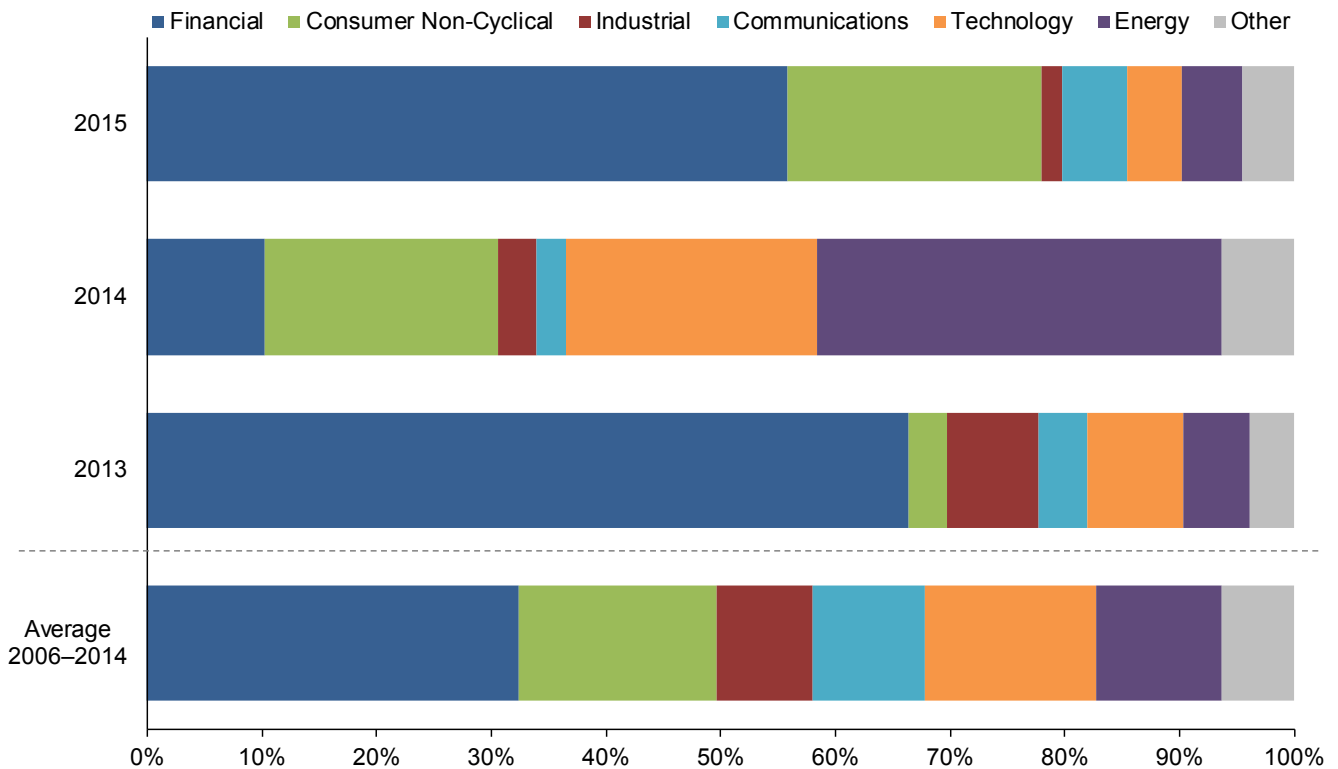


ACCOUNTING CASE SETTLEMENT DOLLARS AND INDUSTRY SECTORS

- The growth in settlement dollars associated with financial firms in 2015 reflects 11 settlements averaging over \$133 million—substantially higher than the average for other industry sectors.
- Unlike other industry sectors, the majority of accounting settlements in the Financial sector include allegations of asset write-downs. This is consistent with many of these cases involving allegations related to the allowance for loan losses. Over 70 percent of the Financial sector settlements involving write-downs in 2015 included allegations related to loan loss reserves.
- The Consumer Non-Cyclical sector accounted for the second largest proportion of total settlement value in 2015, with other sectors associated with substantially smaller amounts.
- After unusual spikes in 2014, the value of accounting settlements in the Energy and Technology sectors fell to below average levels in 2015.

Following a sharp decrease in 2014, the proportion of accounting settlement dollars represented by financial firms led all sectors in 2015.

FIGURE 11: ACCOUNTING CASE SETTLEMENT DOLLARS BY INDUSTRY SECTOR 2006–2015



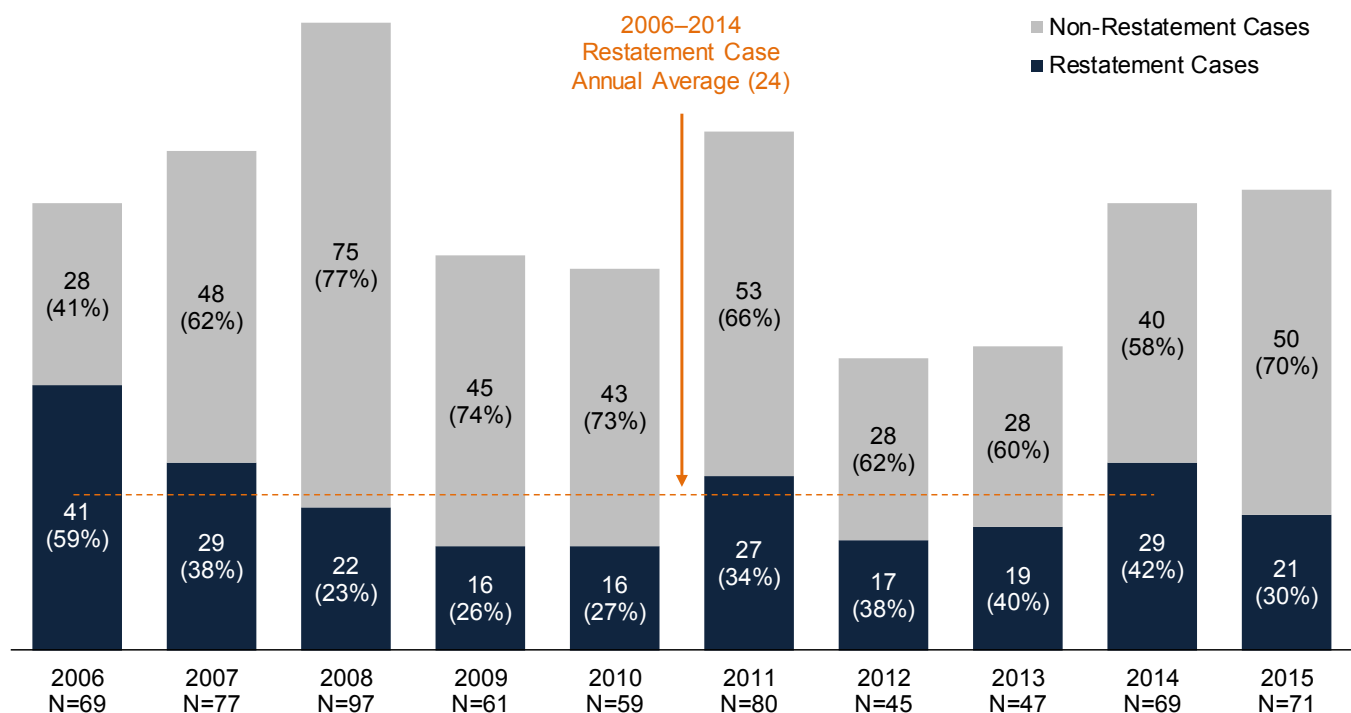
ACCOUNTING RESTATEMENTS

ACCOUNTING CASE FILINGS AND RESTATEMENTS

- Restatement cases comprised 30 percent of the total number of accounting case filings in 2015, but only 3 percent of total accounting case DDL.
- In 2015, total restatement case DDL was at its lowest in the last 10 years, both in terms of dollar value and percentage of total accounting case DDL.
- In 2015, 33 percent of the restatement case filings involved the Industrial sector.

The DDL Index for filings with restatements was smaller than for other accounting case filings in 2015.

FIGURE 12: ACCOUNTING CASE FILINGS AND RESTATEMENTS 2006–2015

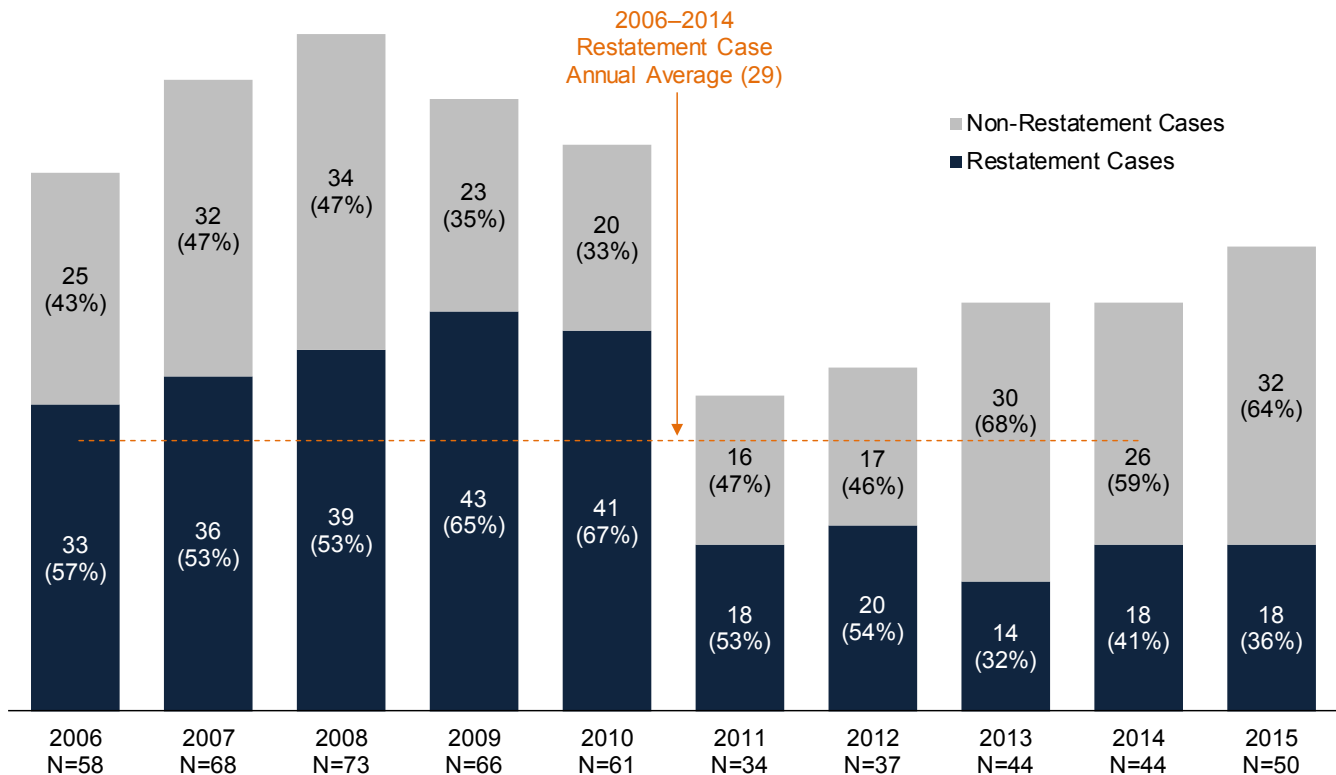


ACCOUNTING CASE SETTLEMENTS AND RESTATEMENTS

- The number of accounting case settlements involving financial statement restatements remained flat compared to 2014, while the proportion of settlements involving restatements decreased slightly.
- Since accounting cases typically take more than three years to reach settlement, the increase in case filings in 2014 involving financial statement restatements has not yet materialized into an increase in settlements involving restatements.
- Over the last five years, cases involving financial statement restatements have averaged approximately three-and-a-half years to reach settlement approval, as compared to just over four years for accounting cases not involving financial statement restatements.

The number of accounting case settlements involving restatements remained substantially lower than in earlier years of the last decade.

FIGURE 13: ACCOUNTING CASE SETTLEMENTS AND RESTATEMENTS 2006–2015



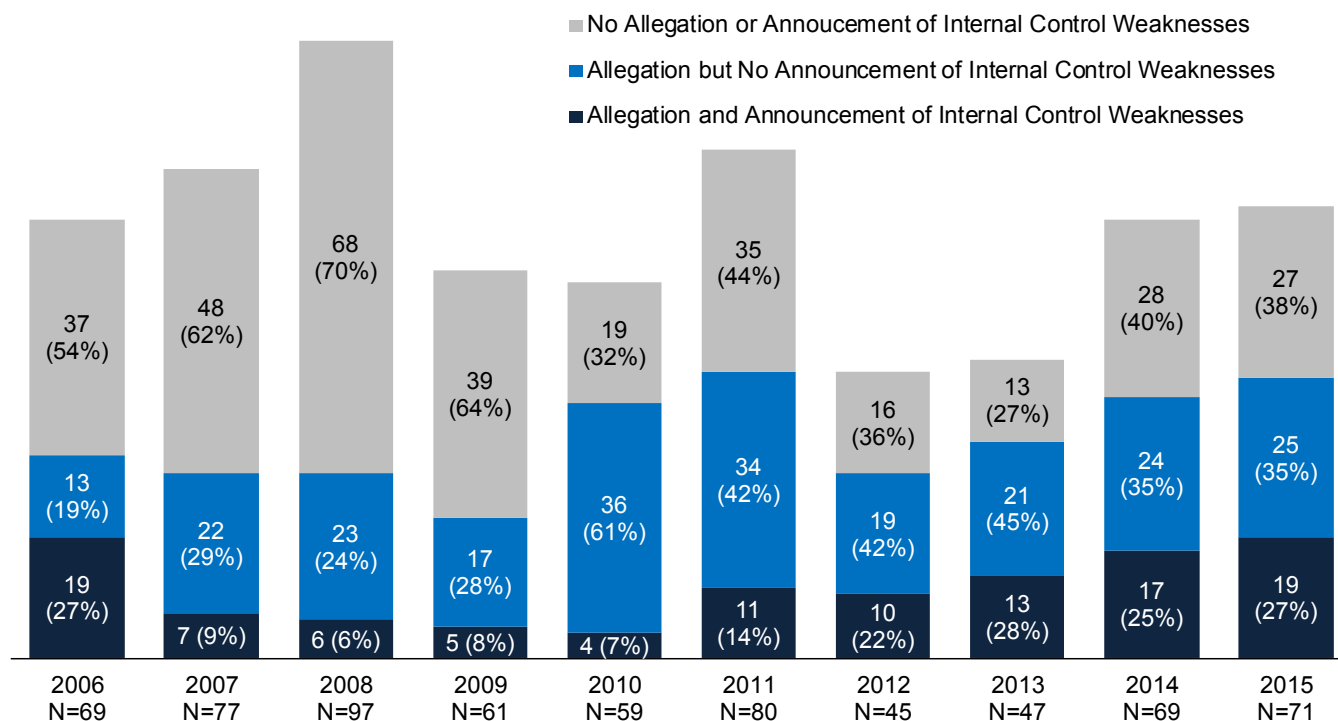
INTERNAL CONTROL ALLEGATIONS

ACCOUNTING CASE FILINGS AND ALLEGATIONS OF INTERNAL CONTROL WEAKNESSES

- For the past six years, the majority of accounting case filings have included allegations of internal control weaknesses. This trend continued in 2015, with 62 percent of accounting case filings containing these allegations.
- The number of accounting case filings containing allegations of internal control weaknesses has steadily increased since 2012.
- In 2015, of the 19 accounting case filings that included allegations and announcements of weaknesses in internal controls, two-thirds also included a restatement.

The number of 2015 accounting case filings containing a company announcement of internal control weaknesses increased to the highest level since 2006.

FIGURE 14: ACCOUNTING CASE FILINGS AND ALLEGATIONS OF INTERNAL CONTROL WEAKNESSES 2006–2015

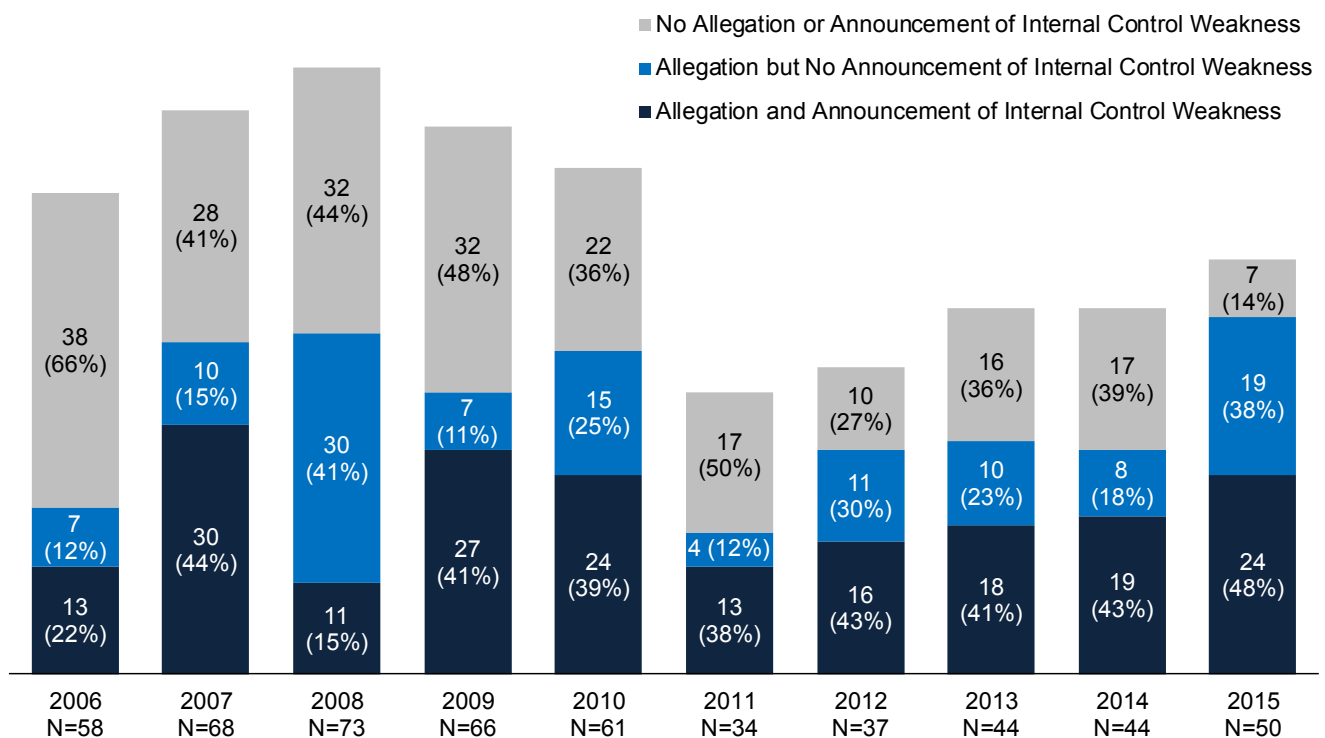


ACCOUNTING CASE SETTLEMENTS AND ALLEGATIONS OF INTERNAL CONTROL WEAKNESSES

- In 2015, the number and proportion of accounting case settlements involving allegations of internal control weaknesses were the highest in the last 10 years.
- For settlements in 2015, both cases with allegations accompanied by defendant firm announcements of internal control weaknesses and those with allegations but no accompanying defendant firm announcement reached relatively high levels in 2015.
- The largest increase in 2015 was for settled cases in which allegations were made but there was no internal control weakness announcement by the company.
- In 2015, settlements involving both categories of internal control allegations (with and without accompanying defendant firm announcements) were associated with substantially smaller cases, as measured by median “estimated damages” (see page 16 for explanation of “estimated damages”) and median defendant firm total assets.

The vast majority of accounting case settlements in 2015 involved allegations of internal control weaknesses.

FIGURE 15: ACCOUNTING CASE SETTLEMENTS AND ALLEGATIONS OF INTERNAL CONTROL WEAKNESSES 2006–2015



FACTORS AFFECTING SETTLEMENTS OF CASES INVOLVING GAAP ALLEGATIONS

MEDIAN “ESTIMATED DAMAGES”

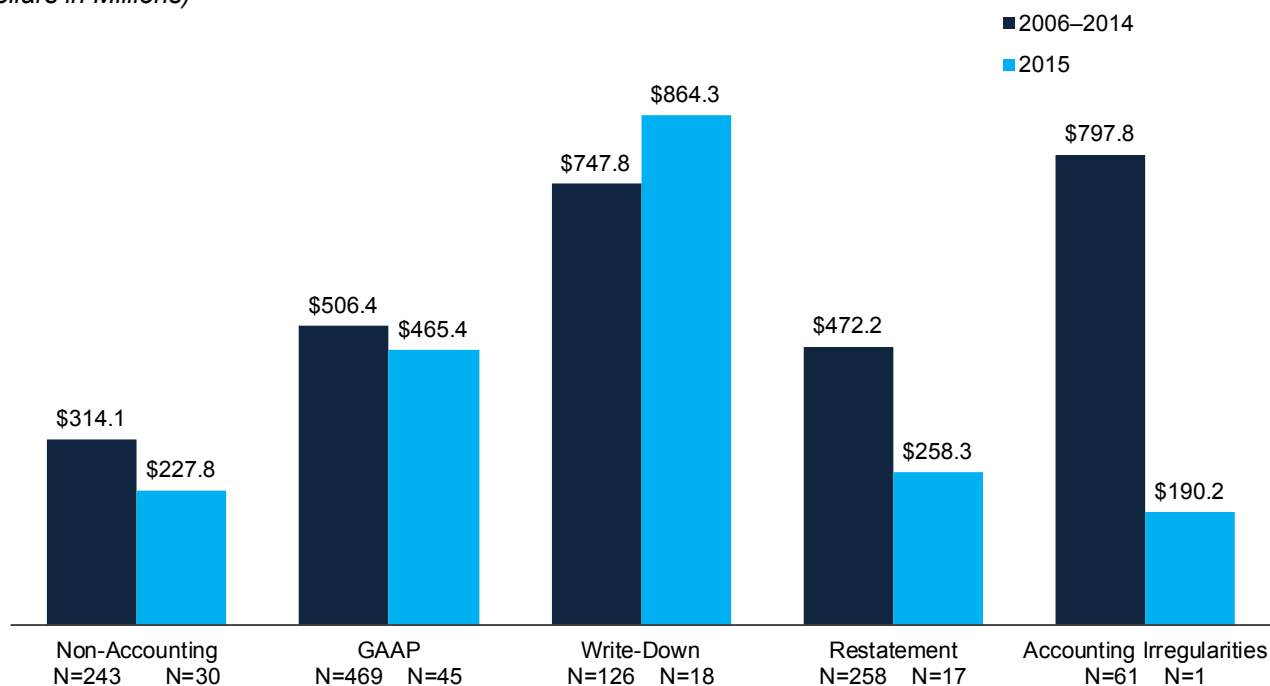
This section examines case attributes across different types of allegations and GAAP issues, with comparisons to non-accounting cases.⁴ The proxy for case damages referred to as “estimated damages” in this report is discussed in detail in [Securities Class Action Settlements—2015 Review and Analysis](#) and is the most important factor in predicting settlement amounts. As a brief overview, this is a simplified calculation of shareholder losses measured consistently across years. It is not intended to represent alleged damages incurred by shareholders but enables the identification and analysis of potential trends.⁵

- Settlements of cases with GAAP allegations continued to be associated with higher “estimated damages” compared to non-accounting cases.
- Given that accounting cases tend to take at least three years to settle, combined with the higher DDL observed for case filings over the last few years (see Figure 3), the overall lower level of “estimated damages” for settlements of cases involving GAAP allegations in 2015 may not persist.
- In 2015, settled cases involving asset write-downs were substantially larger not only in terms of “estimated damages” but also defendant firm asset size, compared to cases with other types of GAAP allegations.

Median “estimated damages” for cases involving financial statement restatements reached a 10-year low in 2015.

FIGURE 16: MEDIAN “ESTIMATED DAMAGES” IN SETTLEMENTS OF CASES INVOLVING GAAP ALLEGATIONS
2006–2015

(Dollars in Millions)



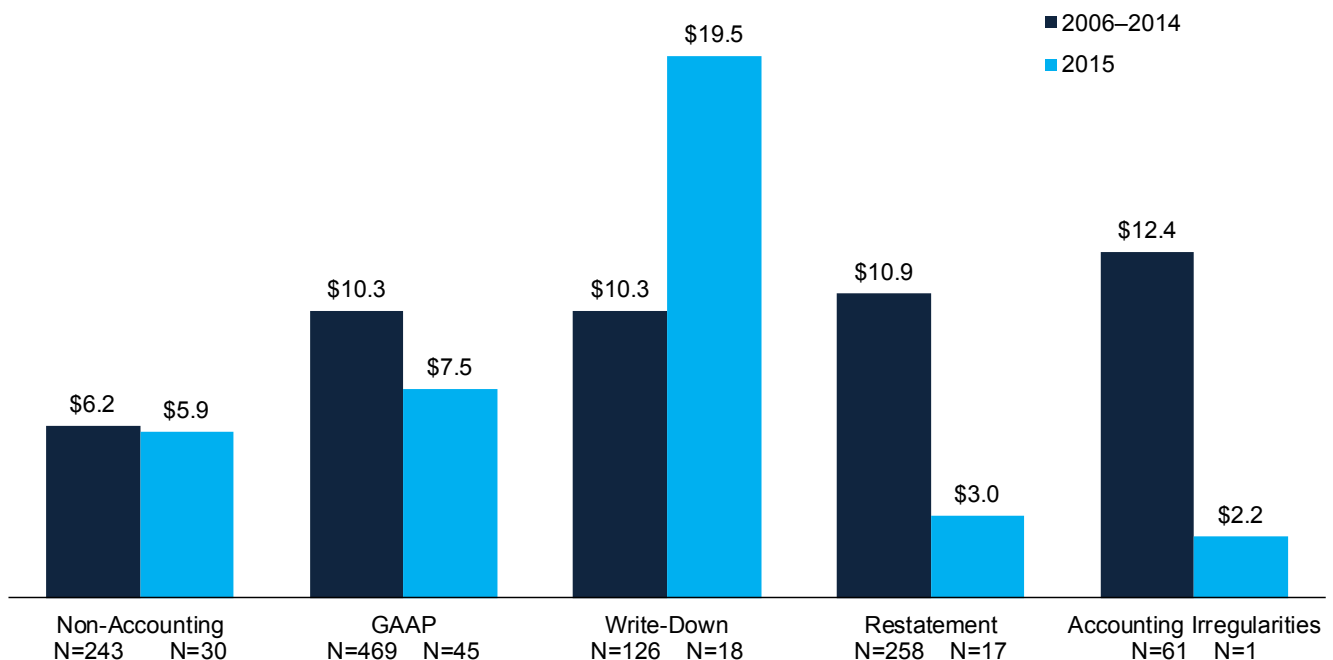
Note: “Estimated damages” are adjusted for inflation based on class period end dates. Allegations of write-downs, restatements, and accounting irregularities are subsets of GAAP.

MEDIAN SETTLEMENT AMOUNTS

- Consistent with the pattern observed for “estimated damages,” the overall median settlement amount for cases involving GAAP allegations was higher than for non-accounting cases both for 2015 and for prior years (2006–2014).
- Compared to prior years, median settlement amounts were lower in 2015 for each of the GAAP allegation categories, with the exception of write-downs.
- In 2015, the proportion of accounting settlements involving restatements and accounting irregularities was lower than the 2006–2014 median, but the proportion of settlements involving write-downs was higher.

In 2015, the highest median settlement amount was associated with cases involving write-downs.

FIGURE 17: MEDIAN SETTLEMENT AMOUNTS
2006–2015
(Dollars in Millions)



Note: Settlement dollars are adjusted for inflation; 2015 dollar equivalent figures are used. Allegations of write-downs, restatements, and accounting irregularities are subsets of GAAP.

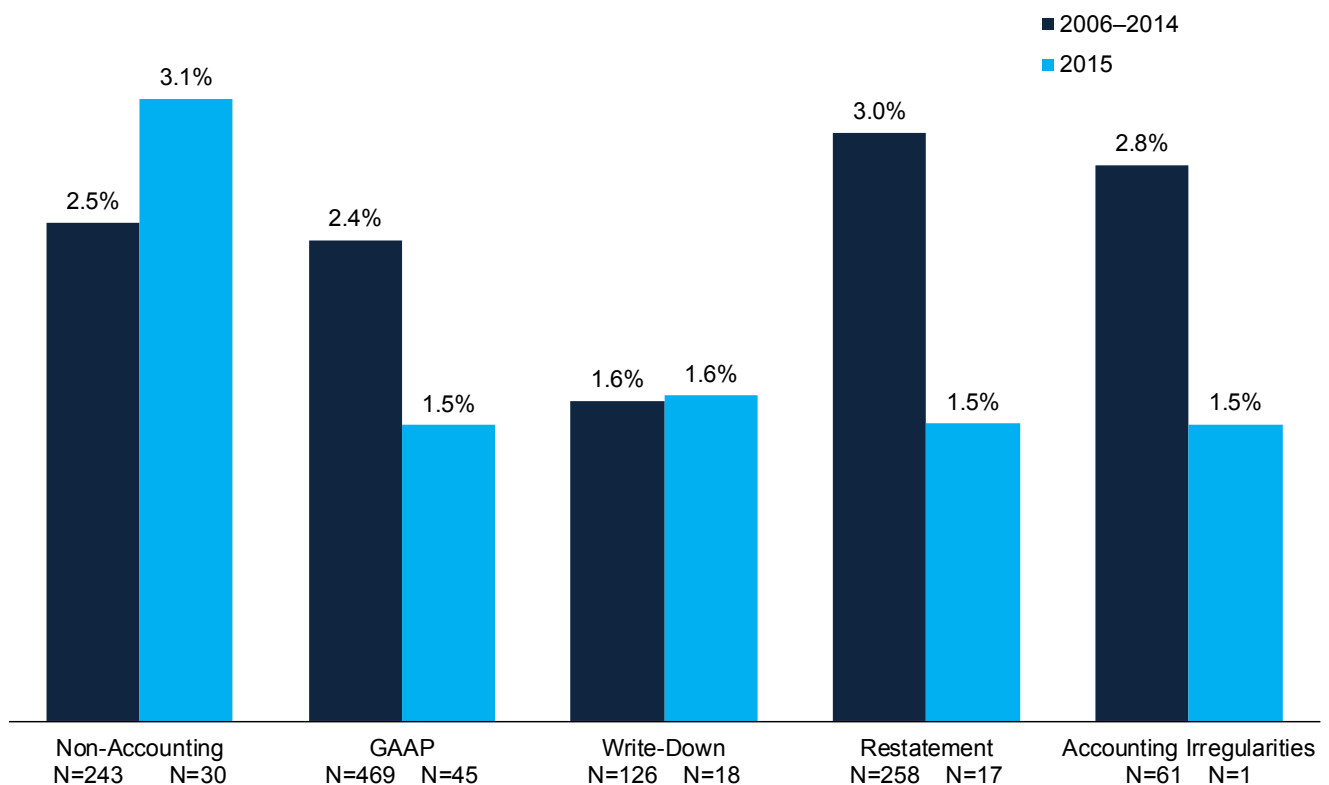
MEDIAN SETTLEMENT AMOUNTS AS A PERCENTAGE OF “ESTIMATED DAMAGES”

Since settlement amounts are largely driven by shareholder losses, it is useful to consider settlement amounts in relation to “estimated damages.”

- Unlike prior years, the median settlement amount as a percentage of “estimated damages” was fairly consistent across the GAAP allegation categories in 2015.
- Historically, cases involving restatements have settled for the highest percentage of “estimated damages.”
- The presence of GAAP allegations is often correlated with other determinants of settlement outcomes, such as auditor defendants and accompanying SEC actions. See Cornerstone Research’s [Securities Class Action Settlements—2015 Review and Analysis](#) for a discussion of the important determinants of settlement outcomes.

In 2015, accounting cases settled for a substantially smaller percentage of “estimated damages” compared to prior years.

FIGURE 18: MEDIAN SETTLEMENT AMOUNTS AS A PERCENTAGE OF “ESTIMATED DAMAGES” 2006–2015



Note: Allegations of write-downs, restatements, and accounting irregularities are subsets of GAAP.

RESEARCH SAMPLE

This report utilizes the databases described in [Securities Class Action Filings—2015 Year in Review](#) and [Securities Class Action Settlements—2015 Review and Analysis](#).

ENDNOTES

- ¹ See [Investigations and Litigation Related to Chinese Reverse Merger Companies](#), Cornerstone Research, 2011.
- ² See [Securities Class Action Filings—2015 Year in Review](#), Cornerstone Research, 2016, page 26.
- ³ See [Accounting Class Action Filings and Settlements—2012 Review and Analysis](#), Cornerstone Research, 2013.
- ⁴ 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 defendant has reported the occurrence of accounting irregularities (intentional misstatements or omissions) in its financial statements.
- ⁵ As described in [Securities Class Action Settlements—2015 Review and Analysis](#), “estimated damages” are not necessarily linked to the allegations included in the associated court pleadings. Accordingly, damages estimates presented in this report are not intended to be indicative of alleged economic damages incurred by shareholders.

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Please direct any questions to:

Elaine M. Harwood
213-553-2553
eharwood@cornerstone.com

Laura E. Simmons
202.912.8998
lsimmons@cornerstone.com

Frank T. Mascari
312.345.7345
fmascari@cornerstone.com

Boston

617.927.3000

Chicago

312.345.7300

London

+44.20.3655.0900

Los Angeles

213.553.2500

New York

212.605.5000

San Francisco

415.229.8100

Silicon Valley

650.853.1660

Washington

202.912.8900

www.cornerstone.com

