

 **STANFORD** LAW SCHOOL
SECURITIES CLASS ACTION CLEARINGHOUSE
IN COOPERATION WITH CORNERSTONE RESEARCH

NEWS RELEASE

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FOR IMMEDIATE RELEASE

**Securities Class Action Lawsuits Decline by 22% and Market
Capitalization Losses Decline by 72%, Finds New Study by Stanford Law
School & Cornerstone Research**

Boston, MA & Palo Alto, CA, May 14, 2004 – Federal securities class action litigation suits declined by 22 percent between 2002 and 2003, falling from 225 to 175 filings. Although companies sued in 2003 lost more than \$540 billion in market capitalization during the purported class periods, that number represents a decline of more than 72 percent from 2002’s record \$1.9 trillion in losses, according to a report released today by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research.

As in past years, this year’s comparisons exclude “atypical” class action filings such as the series of mutual fund securities suits filed during the second half of the year that contained allegations of market timing, lack of disclosure, and breach of fiduciary duty. In 2001 there were more than 300 “IPO Allocation” filings alleging fraud in the initial public offering process. Similarly, in 2002, there were a number of “analyst” filings alleging that investment banks and individual analysts had issued research reports that were neither objective nor independent.

“This is the third year in a row in which we have seen a significant category of filings with characteristics that differ from traditional securities class action litigation,” explained Professor Joseph Grundfest of Stanford Law School, a former Commissioner of the Securities and Exchange Commission. “While traditional litigation is the most consistent measure of ongoing activity and remains the primary focus of our study, the potential impact of securities class action activity has now moved well beyond the traditional issuer fraud case.”

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The average market capitalization loss of \$3.3 billion for companies sued in 2003 is well below the \$9.4 billion average loss in 2002. Of the \$542 billion in total market capitalization losses, nearly \$58 billion is classified as “disclosure dollar losses,” losses that occurred immediately following public disclosure of information at the end of the class periods.

“Clearly, litigation activity slowed down significantly in 2003 both in terms of the number of filings and in terms of the size of the typical filings measured by declines of market capitalization,” said John Gould, vice president of Cornerstone Research and contributor to the study.

Analysis of so-called “mega-filings,” cases in which defendant companies each lost more than \$10 billion in market capitalization, offers additional evidence of the slow down in litigation activity noted by Dr. Gould. In 2002 there were 40 “mega-filings” accounting for 82 percent of total market cap losses. In 2003 there were only 14 such filings accounting for 67 percent of total market cap losses.

The communications sector experienced the largest decrease in filing activity in 2003. The number of filings declined from 58 in 2002 to 25 in 2003. Further, total market capitalization losses in the communications industry decreased by approximately \$700 billion in 2003. As was the case in 2002, filings in 2003 were characterized by a relative parity in terms of the number of filings for companies listed on the NASDAQ relative to those listed on the NYSE/Amex (87 to 76 respectively). Only 2.4 percent of companies listed on the national stock exchanges were defendants in securities class action lawsuits filed in 2003 compared to 3.0 percent in 2002.

The study also found that 92 percent of the filings charge defendants with 10b-5 violations (i.e., material misrepresentations or omissions). Slightly less than 90 percent of the complaints cite misrepresentations in financial documents and, as in 2002, 60 percent allege GAAP violations. Insider trading is alleged in 33 percent of the complaints.

Finally, the report found that the most active federal circuits as measured by the number of filings in 2003 are the Second Circuit (which includes New York) with 37 filings and the Ninth Circuit (which includes California) with 34 filings. Interestingly, the Third Circuit (which includes New Jersey, Delaware and Pennsylvania) had only 14 filings, down from 21 in 2002 and 18 percent less than the 1996-2002 average.

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On May 10, 2004, Cornerstone Research released its annual report on securities class action settlements for 2003. That study found that the overall number of class action settlements declined in 2003, as did the total value of those cases, reversing a trend over the last several years of increasing settlements and total value. In fact, 2003 was the first year since the passage of the Reform Act in which the total value of cases settled declined from the prior year (excluding the extraordinarily large settlement by Cendant Corporation in 2000).

The Securities Class Action Clearinghouse is an authoritative source of data and analysis regarding the financial and economic characteristics of federal securities fraud class action litigation. The full text of the new report can be found on the Clearinghouse site, <http://securities.stanford.edu/>.

Cornerstone Research provides financial and economic analysis in civil litigation and regulatory proceedings, and concentrates in securities, antitrust, intellectual property, energy and financial institutions litigation. Cornerstone Research helps to sponsor Stanford Law School's Securities Class Action Clearinghouse, the leading source of data and analytical information regarding the financial and economic characteristics of securities class action litigation.

Professor Grundfest and Dr. Gould are available to speak to the media about the report.

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