

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

NEWS RELEASE

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FOR IMMEDIATE RELEASE

**Class Action Securities Fraud Lawsuits Up A Modest 17%;
While Dollar Disclosure Losses Nearly Triple
Finds New Study by Stanford Law School and Cornerstone
Research**

Boston, MA & Palo Alto, CA, January 4, 2005 - While the number of federal securities fraud class actions filed in 2004 increased only moderately from 2003 levels, rising to 212 companies sued from 181, the decline in stock market capitalization corresponding to these actions increased dramatically, according to a report released today by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research.

The total decline in the market capitalization of the defendant firms from the trading day just before the end of the class period to the trading day immediately after the end of the class period, or the "Disclosure Dollar Loss (DDL)," nearly tripled from \$58 billion in 2003 to \$169 billion for cases filed in 2004.

This 192 percent increase in the DDL index is attributable entirely to eight filings, in which each defendant firm experienced disclosure dollar losses in excess of \$5 billion. In sharp contrast, there was only one filing with losses that large in all of 2003.

"It is remarkable that we have consistently seen around 200 filings a year for the past eight years," said Dr. John Gould, vice president of Cornerstone Research and contributor to the study. "In addition, it is surprising that the Dollar Disclosure Loss for this period tripled to approach the levels seen after the dramatic market decline in 2000."

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The number of lawsuits alleging violations of Generally Accepted Accounting Principles (GAAP) remained relatively constant in 2004, declining to 102 (48%) in 2004 from 107 (59%) in 2003. Further, several of the large dollar losses observed this year arose as a consequence of product market developments that had material adverse stock market price effects.

“Typically, a class action securities fraud lawsuit arises from allegations that the issuer lied about its financial performance,” explained Professor Joseph Grundfest of Stanford Law School, a former Commissioner of the Securities and Exchange Commission. “This year, however, allegations relating to insurance industry sales practices at companies such as American International Group and Marsh & McLennan, and concerns about the safety of COX-2 inhibitors marketed by Merck and by Pfizer triggered some of the year’s largest lawsuits. These lawsuits do not allege the traditional form of misrepresentation yet they account for approximately 35 percent of 2004’s Dollar Disclosure Losses.”

As in previous years, the median 2004 maximum dollar loss and disclosure dollar loss for NYSE and Amex firms were significantly higher than the medians for NASDAQ firms. This finding is not surprising since the firms listed on the NYSE are typically larger than the firms listed on the NASDAQ.

The top three industry sectors in 2004 in terms of number of issuers sued were Consumer Non-Cyclical, Technology, and Communications. The number of issuers sued in the technology sector nearly doubled over 2003 (19 versus 37 in 2004, a 95 percent increase). Energy sector filings almost tripled, increasing from three to eight. Of note, while the Communications sector was one of the three most-frequently sued in 2004, maximum dollar losses in the industry dropped nearly 80 percent from \$240 billion in 2003 to \$51 billion in 2004 reflecting a lower market capitalization decrease for the average communication company sued in 2004.

The report also found that the most active federal circuits as measured by the number of issuers sued in 2004 were: the Ninth Circuit (including California) with 64 filings, an 83 percent increase over 2003; the Second Circuit (including New York) with 45 filings; and the Eleventh Circuit (Alabama, Florida, and Georgia) with 20 filings.

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>.

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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 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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