

NEWS RELEASE

Contact: John Gould
Cornerstone Research
617-927-3000

Joseph Grundfest
Stanford University Law School
650-723-0458

John Hellerman
jhellerman@hellermanbaretz.com
202-274-4762

FOR IMMEDIATE RELEASE

Subprime/Credit Crunch Crisis and Stock Market Volatility Led to Higher Securities Class Action Filings in the First Half of 2008, Finds Report by Cornerstone Research and Stanford Law School

Second Consecutive Half-Year with High Filings after a Two-Year Lull

Boston and Stanford, July 29, 2008—During the first half of 2008 securities class action filings continued the rebound that started in the second half of 2007, following two years of lower activity. According to a report released today by Cornerstone Research in cooperation with Stanford Law School's Securities Class Action Clearinghouse, there were 110 filings between January 1 and June 30, 2008, suggesting as many as 220 filings by the end of the year.

The recent high level of filings coincided with a marked increase in stock market volatility. Filings jumped from 119 in the twelve months ending June 2007 to 217 over the next twelve months, and stock market volatility doubled over the same period. This level of litigation activity exceeded the annual average for the eleven years between January 1997 and December 2007. About half of the filings in the first half of 2008 were driven by the subprime mortgage/credit crunch, with 58 filings containing related allegations. Of these, 17 involved auction rate securities.

Professor Joseph Grundfest, co-Director of the Rock Center on Corporate Governance and former Commissioner of the Securities and Exchange Commission, noted that, "We continue to witness the dramatic effects of the subprime market meltdown, with half of the filings so far this year linked to the subprime/credit crunch disaster."

John Gould, Vice President at Cornerstone Research and contributor to the report, said, "We have also seen a sharp increase in defendant firms' average market capitalization losses associated with filings. The median loss in the first half of 2008 was \$243 million, more than twice the historical average. Not since the period of heightened filing activity in 2000–02 have we seen market capitalization losses of this size among defendant firms."

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Additional findings include:

- *Financial Sector Had the Most Filings.* The Financial sector had the most securities class action filings for the third straight six-month period, with 63 filings in the first half of 2008—up from 30 in the second half of 2007 and 19 in the first half of 2007. This sector also registered more filings than all other sectors combined. The subprime/credit crunch fallout drove this spike, with almost all the Financial sector filings involving related allegations. In 2007 and the first half of 2008, 87 of the 97 subprime/credit crunch-related filings were in the Financial sector.
- *Market Capitalization Losses Increased.* Maximum Dollar Losses (MDL)[†] rose from \$504 billion in the second half 2007 to \$587 billion in the first half of 2008—the highest level since the second half of 2002. Annualized, this figure would represent a 74 percent increase over 2007 and a 69 percent rise over the average for the eleven years ending December 2007. Disclosure Dollar Losses (DDL)^{*} also remained high in the first half of 2008, at \$106 billion. Annualized, that would be 40 percent more than in 2007 and 65 percent more than the average for the eleven years ending December 2007.

Incidences of “mega” MDL filings (cases associated with MDL of \$10 billion or more) also continued at high levels, with 17 in the first half of 2008 compared with 16 in all of 2007. In addition, there were 7 mega DDL filings (cases associated with DDL of \$5 billion or more) in the first half of 2008, compared with 9 in 2007 and just 1 in 2006.

Dr. Gould and Professor Grundfest are available to speak to the media about the report, titled *Securities Class Action Filings: 2008 Mid-Year Assessment*. The full text of the report is available at <http://securities.cornerstone.com> and <http://securities.stanford.edu>.

About Cornerstone Research

Cornerstone Research provides financial and economic analysis in litigation and regulatory proceedings, with a focus on litigation related to securities, antitrust, intellectual property, financial institutions, energy, and accounting. Cornerstone Research also cosponsors the Stanford Law School Securities Class Action Clearinghouse. For additional information, please visit www.cornerstone.com.

About the Stanford Law School Securities Class Action Clearinghouse

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

[†] MDL is the dollar value decrease in the defendant firm’s market capitalization from the trading day on which the defendant firm’s market capitalization reached its maximum during the class period to the trading day immediately following the end of the class period.

^{*} DDL is the decrease in the market capitalization of the defendant firm from the trading day immediately preceding the end of the class period to the trading day immediately following the end of the class period.

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