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NEWS RELEASE

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FOR IMMEDIATE RELEASE

**Stanford Law School and Cornerstone Research Release Annual Securities
Fraud Class Action Filings Report Indicating That Recent Increase in
Litigation Activity Is Due to the Subprime Crisis and Stock Market Volatility**

2007 Activity Remains Below Historical Averages

Boston and Palo Alto, January 3, 2008—The number of companies sued in securities fraud class action litigation rose 43 percent between 2006 and 2007, from 116 to 166. Although litigation activity for 2007 as a whole was 14 percent below the ten-year historical average (covering 1997–2006) of 194 companies sued per year, activity jumped in the second half of the year as the subprime mortgage crisis unfolded and stock market price volatility increased. One hundred companies were sued in the second half of the year, a litigation rate that reversed a trend of eight consecutive quarters with below average litigation activity. But this increase may not signal a longer-term trend.

Professor Joseph Grundfest, Director of the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research, observes that, “For the past two years, securities fraud class action litigation has been driven by market-wide events, such as the 2006 backdating scandals and the 2007 subprime crisis. If these systemic shocks are excluded from consideration, the ‘core’ litigation rate continues to be remarkably low. When litigation related to the subprime crisis is excluded from the calculation—on the assumption that the subprime crisis is a nonrecurring event—the resulting core litigation rate remains well below historical norms. Measured as a core litigation rate, 126 companies were sued in the full calendar year, compared with the average core litigation rate from 1997 through 2006 of 192.”

John Gould, Vice President at Cornerstone Research and contributor to the report, believes that the increase in filings in the second half of 2007 raises as many questions as answers. He notes, “Just a few months ago we were trying to pin down the cause of the two-year lull in class action activity that began in mid-2005. Unfortunately, the increase in filing activity in 2007 does not provide much insight into why filings were down in the preceding years. While it is likely that both the subprime crisis and the increase in stock market volatility contributed to the increase in filings in the second half of the year, it is not possible, as a technical matter, to separate these two effects.”

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This past year also saw defendants prevailing in the JDS Uniphase securities class action, a rare example of such litigation reaching trial. Professor Grundfest commented that “the JDS trial is an important landmark in modern securities litigation. These cases rarely go to trial, and for the defendants to win a total victory in a case that claimed \$20 billion in damages demonstrates that not every case that makes it past summary judgment has merit. The interesting question is how and whether this trial result might cause plaintiffs to modulate their settlement demands or embolden defendants to take cases to trial.”

Findings

The report’s additional significant findings include:

- *Stock Market Volatility and the Subprime Crisis Directly Correlate with Filing Activity*—Stock market volatility and the number of filings are correlated. On average, a 10 point increase in the quarterly average S&P 500 Implied Volatility Index (VIX) is associated with 12 additional litigations per quarter. In 2007, for instance, the number of companies sued jumped from 66 in the first two quarters to 100 in the last two, just as stock market volatility rose dramatically from historically low levels, partly due to events related to the subprime crisis.
- *Subprime Fallout Skyrockets Finance Filings*—The Finance sector led the way in securities class action activity with 47 companies sued in 2007, more than quadrupling 2006’s 11 filings. The subprime fallout accounted for this spike, with 25 of the Finance sector filings associated with subprime market disclosure issues. The Consumer Non-Cyclical and Communications sectors had the second and third highest levels of litigation activity with 36 and 33 companies sued, respectively.
- *Market Capitalization Losses Increase*—Disclosure Dollar Losses (DDLs)* increased 190 percent from 2006, from \$52 billion to \$151 billion. Also substantial is the 128 percent increase in Maximum Dollar Losses (MDLs)†, which rose from \$293 billion in 2006 to \$669 billion in 2007. Incidences of “mega” DDL filings—cases associated with disclosure losses of \$5 billion or more—were much higher, with nine mega filings in 2007 compared with only one in 2006.
- *Nasdaq and NYSE/Amex Firms Sued Almost As Often*—Somewhat departing from historical trends, in 2007 there were almost the same number of securities class action filings against companies listed on Nasdaq (77 filings) as against those on NYSE/Amex (73 filings). Both figures are higher than in 2006, which saw 60 filings for Nasdaq and 49 for NYSE/Amex. Consistent with other findings in the report, the 2007 filing rate was well below the historical average of 99 filings a year against Nasdaq firms, but in line with the historical average of 74 filings a year against NYSE/Amex firms.

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- *Filing Activity Highest in Second Circuit*—The Second Circuit (New York) had the most securities class action filings in 2007 with 58, followed by the Ninth Circuit (California) with 39, and the Eleventh Circuit (Florida/Georgia/Alabama) with 18. These three circuits were also the busiest in 2006, with the Second Circuit's 31 filings, the Ninth Circuit's 28, and the Eleventh Circuit's 13. Not surprisingly, the Second and Ninth Circuits retained the top two spots for DDLs and MDLs. The Second Circuit had \$93 billion in DDLs and \$443 billion in MDLs while the Ninth Circuit recorded \$21 billion in DDLs and \$105 billion in MDLs. The Third Circuit (Delaware/New Jersey/Pennsylvania) was third with \$12 billion in DDLs and \$39 billion in MDLs.
- *Large Cases Remain Unresolved*—Of the 2,218 securities class action cases filed since 1996, 19 percent are continuing—primarily those filed in the past few years. Among the 81 percent of cases that have been resolved, 41 percent were dismissed and 59 percent settled. Among the dismissals, 73 percent occurred after the first ruling on motion to dismiss but before the ruling on summary judgment, as did 60 percent of the settled cases. For the 1996–2001 cases, almost all of which have been resolved, the median time to resolution was 33 months, with 36 months for settled cases and 25 months for dismissed cases. Importantly, a comparison of the market capitalization DDL of cases filed in 2000–02 shows that the median DDL of ongoing cases is more than twice that of settled or dismissed cases. These data indicate that cases with larger shareholder losses take longer to resolve.

Professor Grundfest and Dr. Gould are available to speak to the media about the report, titled *Securities Class Action Case Filings—2007: A Year in Review*. The full text of the report is available at the Stanford Law School Securities Class Action Clearinghouse (<http://securities.stanford.edu>) and Cornerstone Research (www.cornerstone.com) websites.

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 federal securities fraud class action litigation.

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, energy, accounting, and financial institutions. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse.

* Disclosure Dollar Loss is the dollar value decrease in the defendant firm's market capitalization at the end of the class period (usually the time of the disclosure of the alleged fraud).

† Maximum Dollar Loss 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.

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