Stanford Law School

SECURITIES CLASS ACTION CLEARINGHOUSE
IN COOPERATION WITH CORNERSTONE RESEARCH

NEWS RELEASE

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FOR IMMEDIATE RELEASE

Securities Class Action Filings Decline Sharply in 2009, With Steepest Drop in Claims Related to the Credit Crisis, According to the Annual Report by Stanford Law School and Cornerstone Research

Plaintiff Law Firms Turn to Old Cases

Boston and Stanford, January 5, 2010— Federal securities fraud class action activity in 2009 was down sharply compared to 2008 and historical averages, according to *Securities Class Action Filings—2009: A Year in Review*, an annual report prepared by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research.

A total of 169 federal securities class actions were filed in 2009, a 24 percent decline from the 223 observed in 2008, and 14 percent below the average of 197 observed between 1997 and 2008.[1] Litigation activity related to the credit crisis declined even more markedly from 100 filings in 2008 to only 53 in 2009, a 47 percent decrease. Only 17 of those filings occurred in the second half of 2009.

Market capitalization losses attributable to 2009 filings, as measured by Disclosure Dollar Loss (DDL) and Maximum Dollar Loss (MDL), decreased from 2008 levels by 62 percent to $83 billion and by 24 percent to $634 billion, respectively.[2] In 2009, DDL for credit crisis filings totaled $29 billion, a 68 percent decline from the $90 billion level realized in 2008. Similarly, the total MDL for credit crisis filings in 2009 of $287 billion decreased by 38 percent from the 2008 level of $459 billion.

Plaintiff law firms also filed a much larger number of lawsuits long after the date on which the alleged fraud was disclosed to the market. The filing of these delayed class actions was particularly notable in the second half of the year when the median filing lag was 100 days, more than three times the historical average. The plaintiff law firm Coughlin Stoia Geller Rudman & Robbins appears to be disproportionately involved in filing these delayed claims.

Commentary

Professor Joseph Grundfest, Director of the Stanford Law School Securities Class Action Clearinghouse:

- "As predicted in last year's report, the rate of litigation overall and particularly against financial firms declined from the financial crisis-fueled levels observed in 2008. Plaintiffs simply ran out of financial firms to sue, and the rising stock market made it harder for plaintiffs to assert claims."

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- “The remarkable increase in old claims filed during 2009 suggests that plaintiffs are trying to fill the litigation pipeline by bringing older lawsuits that weren’t attractive enough to file while the firms were busy pursuing financial sector claims. If history is a guide, these lawsuits are more likely to be dismissed and can therefore be characterized as lower quality claims.”

- “It is particularly intriguing that a disproportionate number of these old claims involve a single plaintiff law firm. The spike in old filings may therefore reflect factors idiosyncratic to one large plaintiff firm’s strategy, and have little to do with larger market forces.”

Dr. John Gould, Senior Vice President of Cornerstone Research:

- “Historically, periods of high market volatility coincide with a greater level of securities class action filings. After sharply rising for two years, market volatility decreased in the first half of 2009 and then fell again in the second half of the year. In that sense, it’s no surprise that filings decreased this year.”

- “Perhaps most striking this past year was the rapid decline of credit crisis securities class action filings, which followed an equally quick ascent in 2007 and 2008.”

Key Findings

- The Litigation Heat Maps™ show that the percent of S&P 500 index financial firms named as defendants in a securities class action dropped from 32.6 percent in 2008 to 11.5 percent in 2009. The financial firms named as defendants in 2009 still represented 39.1 percent of the sector’s total market capitalization.

- Overall, 4.6 percent of the companies included in the S&P 500 index were sued in a federal securities class action in 2009, compared to 9.2 percent in 2008. Those companies represented 8.7 percent of the index’s total market capitalization, well below the 17.1 percent in 2008.

- There was a dramatic decrease in unique public issuers targeted by filings in 2009, declining by 32 percent to 114 issuers.

- After peaking at 16.4 percent in 2007, the percentage of filings against foreign issuers declined to 13.5 percent in 2008 and to 12.4 percent in 2009.

- There were only three “mega” DDL complaints—complaints associated with a DDL of $5 billion or more—filed in 2009, the second lowest number for any year in the database and a steep drop from the 12 mega filings in 2008. These mega DDL complaints accounted for 50 percent of total DDL in 2009.

- There were only 12 “mega” MDL complaints—complaints associated with an MDL of $10 billion or more—filed in 2009, the lowest number since 2006 and a steep drop from the 25 mega filings in 2008. However, these filings still accounted for 75 percent of total MDL in 2009, similar to the share of total MDL in prior years.

- Representing roughly half of all filings, the financial sector again had the highest level of litigation activity with 84 filings, well above the consumer non-cyclical sector with 33 filings and the communications sector with only 12 filings.

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- The top three circuits by litigation activity remained the same in 2009. The Second Circuit (New York/Connecticut/Vermont) again had the most securities class action complaints filed with 64, followed by the Ninth Circuit (California/Alaska/Arizona/Hawaii/Idaho/Montana/Nevada/Oregon/Washington) with 40, and the Eleventh Circuit (Florida/Georgia/Alabama) with 14.

- Class action filings continued a number of trends in recent years with more Section 11 and Section 12(2) allegations, fewer Section 10b-5 claims, and underwriters more frequently named as defendants.

Professor Grundfest and Dr. Gould are available to speak to the media about *Securities Class Action Filings—2009: 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 (http://securities.cornerstone.com) websites.

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.

Cornerstone Research provides financial and economic consulting and expert testimony in litigation and regulatory proceedings. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse. For additional information, please visit: http://www.cornerstone.com.

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[1] The 2009 filings figures include class actions identified as of December 21, 2009. Historically, few class actions are filed during the last two weeks of the year. Years other than 2009 include filings through December 31. Our “filings” counts consolidate multiple filings related to the same allegations against the same company or companies and are therefore counts of unique disputes.

[2] Maximum Dollar Loss and Disclosure Dollar Loss are defined in the “Market Capitalization Losses” section of the report.

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