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FOR IMMEDIATE RELEASE

**Securities Class Action Filings Decrease Moderately in First Half of 2011,
According to Mid-Year Report by Stanford Law School and Cornerstone Research**

Chinese Reverse Mergers and M&A Litigation Represent 47.9 Percent of Filings Activity

Boston and Stanford, July 26, 2011—Federal securities class action activity decreased in the first six months of 2011, according to *Securities Class Action Filings—2011 Mid-Year Assessment*, a semiannual report prepared by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research. A total of 94 federal securities fraud class actions were filed in the first half of the year, representing a 9.6 percent decrease from the 104 filings in the second half of 2010. This decline includes a drop in credit-crisis filings; there were just two such filings in the first half of 2011.

Twenty-four filings related to Chinese reverse mergers accounted for 25.5 percent of all filings in the first half of 2011. There were 21 traditional M&A filings in the first half of 2011, which constituted 22.3 percent of all filings. Taken together, Chinese reverse mergers and traditional M&A filings constituted 47.9 percent of all securities fraud class action complaints filed during the last six months, up from 32.7 percent in the last six months of 2010.

Only 8.5 percent of filings named companies in the S&P 500 Index, down from 15.4 percent in the second half of 2010. This decrease in the proportion of filings involving S&P 500 companies can be partially explained by an increase in the share of nontraditional filings, such as Chinese reverse merger and M&A cases, which predominantly involved smaller firms that were not part of the S&P 500 Index. Overall, eight companies, or approximately one out of every 63 companies in the S&P 500 Index at the beginning of 2011, were defendants in a class action filed in the first half of 2011, compared with about one out of every 19 S&P 500 companies in the full year of 2010. Litigation activity in the S&P 500 Financials and Health Care sectors decreased substantially. The Heat Maps of S&P 500 Securities Litigation™ show that only one company in the S&P 500 Financials sector, representing 1.2 percent of the sector, was named as a defendant in a class action in the first half of 2011, compared with the historical average of 11.7 percent of Financials sector firms for the 11 years ending December 2010. There were no filings against companies in the S&P 500 Health Care sector in the first half of 2011, reversing the uptick in Health Care sector filings observed in 2010.

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The losses in market capitalization associated with the announcements ending the class periods have remained low. Although the total Disclosure Dollar Loss (DDL) of \$48 billion in the first half of 2011 represented a 152.6 percent increase from the second half of 2010, the market capitalization losses remained well below the historical average of \$64 billion observed between 1997 and 2010. There were two mega DDL filings—filings with more than \$5 billion in end-of-class market capitalization losses—which together represented 47.6 percent of the DDL Index™ in the first half of 2011. The market capitalization declines over the entire class periods also remained low in 2011. The total Maximum Dollar Loss (MDL) in the first half of 2011 was \$256 billion, a 98.4 percent increase from the second half of 2010 but still well below the historical average of \$340 billion. Five mega MDL filings, each with more than \$10 billion in market capitalization losses, represented 84.4 percent of the MDL Index™ in the last six months.¹ The low DDL and MDL levels in the first half of 2011 are consistent with the relatively low number of filings in the recent six-month periods, the high incidence of class actions against Chinese companies that tend to have small market capitalizations, and the continued trend of filings involving M&A activity and private securities.

Commentary

Professor Joseph Grundfest, Director of the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research:

“There appears to be a sea change in the structure of the class action securities fraud litigation business. The traditional claims that U.S.-based companies have been cooking their books or hyping their stocks are in sharp decline.”

“The new kid on the block is the claim alleging that Chinese-based issuers have made false financial statements. The question remains as to whether or not this litigation will lead to meaningful recovery for plaintiffs. If plaintiffs successfully obtain large judgments in American courts, they may not be able to enforce their judgments against Chinese assets held by Chinese defendants in China.”

“Addressing the problem of Chinese reverse mergers may require a higher degree of cooperation between the Chinese and American judicial systems than has ever occurred in U.S.–China relations.”

“If one focuses exclusively on traditional fraud claims against U.S.-based companies, then 2011 may well be on track to be the quietest litigation year since Congress passed the Private Securities Litigation Reform Act of 1995.”

Kevin LaCroix, OakBridge Insurance Services, a division of R-T Specialty, LLC, and Author of The D&O Diary:

“One of the most distinctive trends in securities litigation identified by the Securities Class Action Clearinghouse in recent years has been the rapid growth of litigation related to mergers and acquisitions. The litigation has increased much more rapidly than the level of M&A activity. The flood of litigation is a problem not just for the parties to the M&A transaction but for the courts as well. Courts are already struggling with ways to manage this litigation and to create incentives and disincentives for the plaintiffs’ lawyers through the size of the plaintiffs’ fee award.”

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¹ Disclosure Dollar Loss and Maximum Dollar Loss are defined in the “Market Capitalization Losses” section of the report.

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

“We saw the lowest level of class action filing activity in S&P 500 companies since we began tracking this sector of the market in 2000. This has led to overall market capitalization losses that were well below historical levels. We could see changes in how plaintiffs approach the business if this trend in filings against the largest companies were to continue.”

“Class action filing activity in the Financials and Health Care sectors, two recent hot spots, was practically nonexistent this year.”

Key Findings

- If the filing frequency observed in the first half of 2011 continues through the remainder of the year, there will be a total of 190 filings in 2011, on par with the average annual number of filings from 1997 to 2010. This would represent an 8 percent increase from 2010 and would be only 2.1 percent below the average annual number of filings for the 14 years ending December 2010. This projection assumes that filings against Chinese reverse merger companies will continue at the same level during the second half of 2011. There is a lot of uncertainty embedded in this assumption. If one assumes instead that there will be no Chinese reverse merger filings in the second half of 2011, and other types of filings continue at the same pace, there will be a total of 165 filings for the year, making 2011 the second lowest year in filings activity after 2006.
- In the first half of 2011, the median lag between the end of the class periods and the filing dates dropped to the lowest recorded semiannual level since 1997. The median lag was eight days in the first half of 2011, a 20 percent decrease from the median lag of 10 days during the second half of 2010 and 71.4 percent below the median lag of 28 days for the 14 years ending December 2010. The decline in the median filing lag can be partially attributed to the large number of filings related to M&A activity, private securities, and securities other than common equity, which tend to be filed quickly. If these filings were excluded from the analysis, the median lag would increase to 17 days for the first half of 2011.
- The number of unique issuers as a percentage of the total number of filings increased to 88.3 percent, continuing the upward trend from 2010 after declining to a historical low of 70.2 percent in 2009. The increase reflects a decline in credit-crisis lawsuits, which were concentrated in a set of financial companies.
- Overall, the level of class actions against S&P 500 companies is historically low both in terms of the number of companies named as defendants and the percentage of market capitalization represented by the defendants.

Professor Grundfest and Dr. Gould are available to speak to the media about the report titled *Securities Class Action Filings—2011 Mid-Year Assessment*. The full text of the report is available at the [Stanford Law School Securities Class Action Clearinghouse \(securities.stanford.edu\)](http://www.stanford.edu/law/school/securities/classactionclearinghouse) and [Cornerstone Research \(www.cornerstone.com/securities\)](http://www.cornerstone.com/securities) 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 and its affiliated testifying experts provide economic and financial analysis of complex issues arising in commercial litigation and regulatory proceedings. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse. Information about Cornerstone Research is available at www.cornerstone.com.

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