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FOR IMMEDIATE RELEASE

**Securities Class Action Filings Increase Slightly in 2011,
According to Report by Stanford Law School and Cornerstone Research**

**Filings Targeting Merger and Acquisition Transactions Remain High, and Chinese Reverse Merger
Filings Decline in the Second Half of the Year**

Boston and Stanford, January 19, 2012—Federal securities fraud class action filing activity increased slightly in 2011, according to *Securities Class Action Filings—2011 Year in Review*, a semiannual report prepared by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research. A total of 188 federal securities class actions were filed in 2011 compared with 176 filings in 2010, with an equal number of actions (94) being filed in the first and second halves of the year. The number of class actions filed was 3.1 percent below the annual average of 194 filings observed between 1997 and 2010.

Consistent with a trend first observed in 2010, filings related to merger and acquisition (M&A) transactions continued to constitute a large percentage of total filings, accounting for 22.9 percent of 2011 activity. There were 20 such filings in the first half of 2011 and 23 filings in the last six months of the year. In 2010, M&A filings constituted 22.7 percent of all filings.

Litigation against Chinese issuers listed on U.S. exchanges through reverse mergers represented a major component of filings activity during 2011, although evidence indicates that this type of litigation is subsiding. In 2011, 33 such actions were filed, constituting 17.6 percent of all federal securities class actions. This activity occurred predominantly in the first half of the year, when 24 of these actions were filed; only nine were brought in the last six months, including five filed in the last three months of the year. In contrast, there were only nine such cases filed during 2010, suggesting both a rapid peak and decline in this type of litigation activity. Compared to other class action securities fraud complaints, Chinese reverse merger filings are more likely to allege violations of generally accepted accounting principles and financial restatements and are less likely to allege insider trading.

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The number of filings related to the credit crisis continued to decline. There were only three such filings in 2011, a decrease from 13 in 2010 and 53 in 2009. Overall filings in the financial sector also decreased, as financial companies were defendants in 13.3 percent of filings in 2011 compared with 24.4 percent in 2010. The Heat Maps of S&P 500 Securities Litigation™ show that in 2011, only 1.2 percent of S&P 500 companies in the Financials sector were named defendants in a class action compared with 11.7 percent, the 10-year historical average ending December 2010. These companies represented 6.9 percent of the Financials sector's market capitalization, well below the historical average of 24.3 percent. There also was very little activity in the Health Care sector of the S&P 500 in 2011, with only 2.0 percent of Health Care companies subject to new filings.

A notable development in 2011 was the finalization of the rules of the Dodd-Frank Whistleblower Program. The SEC published its annual report on the Dodd-Frank Whistleblower Program in November 2011, indicating that the SEC had received 334 tips since the rules were finalized on August 12, 2011. These tips spanned 37 states and 11 different foreign countries. About 9.6 percent of the tips received were related to tips involving foreign companies.

The market capitalization declines associated with end-of-class-period announcements have increased from 2010 levels but remain below the historic average. The total Disclosure Dollar Loss (DDL) of \$106 billion in 2011 represented a 47.2 percent increase from 2010 but remained 17.8 percent below the average of \$129 billion observed between 1997 and 2010. There were four "mega DDL" filings in 2011 associated with end-of-class market capitalization losses exceeding \$5 billion. These filings represented 58.9 percent of the DDL Index™ in 2011.

The total Maximum Dollar Loss (MDL) of \$493 billion in 2011 was 4.0 percent above the total MDL in 2010 and 27.5 percent below \$680 billion, the average MDL observed between 1997 and 2010. The number of "mega MDL" filings with losses of more than \$10 billion decreased in number in 2011 but increased in dollar value. Nine mega MDL filings represented 80.2 percent of the MDL Index™ in 2011, while 14 mega MDL filings represented 79.1 percent of the MDL Index™ in 2010.

Commentary

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

"This corner of the litigation market continues to run at a pace well below historic norms. The rapid run-up and subsequent decline of litigation against Chinese issuers that entered the U.S. market through reverse mergers suggest that this form of litigation may be close to having run its course. The decline in financial crisis claims further depressed the overall statistics. It's only the growth of merger-related litigation, which has historically been brought in state courts, that inflates the aggregate statistics so that they even approach historic norms. Taken together, these data suggest that there are far fewer claims of traditional securities fraud by U.S. issuers than has been the case since the mid-1990s."

Dr. John Gould, Senior Vice President in the Boston office of Cornerstone Research:

"While the number of securities class action filings in 2011 increased slightly compared with 2010, the number of filings and the associated market capitalization losses are still well below historical levels. Filings related to the financial crisis have continued to decrease, but we are seeing increases in the number of M&A filings. The upward trend of Chinese reverse merger filings peaked in the first half of 2011 and now appears to be dissipating."

"At mid-year, I noted that '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 remained true when all filings for the year were examined. The two historically most active sectors of the S&P 500, Financials and Health Care, had the fewest number of new filings compared with any year between 2000 and 2010."

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Key Findings

- In the second half of 2011, the median lag between the end of the alleged class period and the filing date of the lawsuit rose to 20 days, more than double the median lag of nine days in the first half of 2011. This represented the first increase in median lag since the second half of 2009. Despite the increase, it is still below the historical median lag of 27 days for the 14 years ending December 2010. This increase is associated with an increase in the number of filings with a six-month or longer lag. (See page 7.)
- The total number of unique issuers, whose exchange-traded securities were involved in class actions, increased by 13.3 percent. Multiple filings against the same issuer continued to decline in 2011. Unique issuers as a percentage of total 2011 filings increased to 86.2 percent from 81.3 percent in 2010, continuing to rebound from a historic low in 2009. From 1997 to 2010, the average ratio of unique issuers to total filings was 89.1 percent. (See page 8.)
- Filings against foreign issuers as a percent of total filings sharply increased in 2011. From 2008 to 2010, the average percent of total filings against foreign issuers was 13.4 percent; however, filings against foreign issuers rose to 36.2 percent in 2011. This large increase can be attributed primarily to the number of filings against Chinese firms, which accounted for 41 of the 68 filings against foreign issuers. (See page 10.)
- About one out of every 31 companies in the S&P 500 Index at the beginning of 2011 was a defendant in a class action filed during the year compared with an average of about one out of every 16 companies between 2000 and 2010. (See page 12.)
- New analysis tracked the probability of a class action advancing through different stages of litigation. Using a sample of 2,415 “Classic Filings” from 1996 to 2011 that have been resolved, we found that for cases from all circuits, 75 percent of filings reached a ruling on motion to dismiss. After the first ruling on motion to dismiss, 32 percent of all cases were dismissed at that point or subsequently, 35 percent settled thereafter but before a ruling on summary judgment, and 8 percent proceeded to a ruling on summary judgment. (See page 18.)
- New analysis of the number of federal judges who presided over a specified number of class actions revealed that 329 judges in our database presided over only one case between 1996 and 2011. Only 65 judges presided over more than 10 class actions. Even fewer judges presided over multiple cases that reached a ruling on summary judgment. For judges that presided over cases that reached this stage, 133 presided over only one case. No judge presided over more than three federal class actions that reached a ruling on summary judgment during this period. (See pages 19–20.)
- New analysis of the plaintiff law firms most frequently named lead counsel indicated that Robbins Geller Rudman & Dowd was named lead or co-lead counsel more often than any other firm from 2009 to 2010. (See pages 21–22.)
- In 2011, 60 class actions were filed against firms listed on NYSE or Amex and 105 against firms listed on NASDAQ. However, the market capitalization losses in filings related to issuers listed on NYSE or Amex continued to be larger than filings related to issuers listed on NASDAQ. While NASDAQ filings accounted for 63.6 percent of the total number of filings against issuers listed on major exchanges, these filings only represented 41.4 percent of the total DDL and 24.9 percent of the total MDL in 2011. (See page 25.)

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- As in 2010, the three circuits with the highest number of filings in 2011 were the Ninth Circuit, Second Circuit, and Third Circuit, with 54, 51, and 14 filings, respectively. The Ninth Circuit surpassed the Second Circuit in 2010 for most filings and maintained that position in 2011, at least partially due to the decline in credit-crisis filings, which tend to be concentrated in the Second Circuit. (See page 26.)

Professor Grundfest and Dr. Gould are available to speak to the media about the report titled *Securities Class Action Filings—2011 Year in Review*. The full text of the report is available at the Stanford Law School Securities Class Action Clearinghouse (securities.stanford.edu) and Cornerstone Research (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 provides economic and financial consulting and expert testimony in litigation and regulatory proceedings and cosponsors the Stanford Law School Securities Class Action Clearinghouse. Information about Cornerstone Research is available at www.cornerstone.com.