

 **STANFORD LAW SCHOOL**  
**SECURITIES CLASS ACTION CLEARINGHOUSE**  
IN COOPERATION WITH **CORNERSTONE RESEARCH**

**NEWS RELEASE**

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**FOR IMMEDIATE RELEASE**

**Stanford Law School and Cornerstone Research Release Mid-Year Securities Fraud  
Class-Action Filings Report**

**Securities Fraud Lawsuits Continue to Decline in First Half of 2006**

**Options Backdating Scandal Not Drawing Much Federal Class Action Litigation**

**Boston & Palo Alto, July 26, 2006** – The annualized number of “traditional” securities fraud class actions filed from January through June 2006 decreased 31 percent compared to 2005 levels, falling from 179 filings to an annualized estimate of only 123, based on 61 filings through June 30, 2006, finds a new, mid-year report released today by the Stanford Law School Securities Class Action Clearinghouse in cooperation with Cornerstone Research.

According to the report, the number of filings in the first half of 2006 is at the lowest level for any six month period since 1996, and on an annualized basis is 36 percent below the 1996-2005 historical average of 194. The study also compared the number of filings over the first six months of 2006 to the average number of filings over all semi-annual periods beginning in January 1997. A t-test indicates that the number of filings over the first six months of 2006 is lower than the average during 1997 to 2005 and the difference is statistically significant at a 5% confidence level.

The mid-year study also finds a large decline in market capitalization losses related to all securities fraud class action lawsuits filed so far in 2006. The Disclosure Dollar Loss (DDL) decreased 55 percent on an annualized basis from \$100 billion in 2005 to \$22 billion (\$45 billion on an annualized basis) in the first half of 2006. The maximum dollar loss (MDL) decreased 44 percent on an annualized basis from \$456 billion in 2005 to \$127 billion (\$255 billion on an annualized basis) in the first half of 2006.\* The decreases in total DDL and MDL are reflective of the lower number of filings and lower market capitalization losses associated with the average/median filing.

“We’re halfway through 2006 and already we’re witnessing evidence consistent with a slowdown in the volume of federal class action litigation activity” said Stanford Law School Professor Joseph Grundfest, Director of the Securities Class Action Clearinghouse and former Commissioner of the Securities and Exchange Commission. “While we lack the data necessary to determine the precise cause of the slowdown, the most intriguing hypothesis is that extensive and expensive corporate efforts to improve governance and accounting have reduced plaintiffs’ ability to allege fraud.”

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Dr. John Gould, vice president of Cornerstone Research and major contributor to the study, suggests caution in interpreting the recent slowdown in filings: “Although there is no doubt that there has been a considerably lower level of filing activity over the last year, it is still too early to tell whether this represents a permanent shift.”

Despite the recent wave of public attention surrounding the alleged backdating of options at more than sixty publicly traded companies, the impact of the scandal has not been as large as some might expect.

In fact, only eight federal class actions had been identified alleging illegal backdating behavior by June 30, 2006 (Comverse Technology, Inc.; Vitesse Semiconductor Corporation; UnitedHealth Group, Inc.; American Tower Corporation; Brooks Automation, Inc.; KLA-Tencor Corporation; Brocade Communication Systems, Inc.; and Mercury Interactive Corporation). Since the close of the report’s sample period, two more issuers have been named in backdating class actions (Juniper Networks, Inc. and Rambus, Inc.) bringing the total number of backdating related class actions to ten.

Professor Grundfest notes several reasons why class action complaints in backdating situations are not more common.

1. Many disclosures relating to allegations of backdating are not accompanied by statistically significant stock price declines.
2. The alleged options backdating activities occurred so long ago that the statute of limitations defense may be effective.
3. In some situations, the uncertainties associated with the application of appropriate accounting principles may cause potential plaintiffs to recognize that they will have difficulty alleging that there was an intention to commit fraud.
4. Most of the litigation is being filed in state court through derivative actions because these actions do not, as a practical matter, require significant stock drops as a predicate to filing, and it may be easier to allege a violation of a fiduciary duty in many of these cases than to demonstrate a willful fraud.

Professor Grundfest and Dr. Gould are available to speak to the media about the report. The full text of the 2006 mid-year report can be found on the Clearinghouse site, <http://securities.stanford.edu>.

### **About The Securities Class Action Clearinghouse**

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

### **About Cornerstone Research**

Cornerstone Research provides financial and economic analysis in civil litigation and regulatory proceedings, and concentrates in securities, antitrust, intellectual property, energy, accounting, and financial institutions litigation. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse.

\*The Clearinghouse’s Disclosure Dollar Loss Index -- DDL Index™ -- is the running sum of “disclosure dollar losses” for all class action lawsuits filed year-to-date. The Maximum Dollar Loss Index -- MDL Index™ -- is the running sum of “maximum dollar losses” for all class action lawsuits filed year-to-date.

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