CORNERSTONE RESEARCH

Securities Class Action Settlements

2006 Review and Analysis

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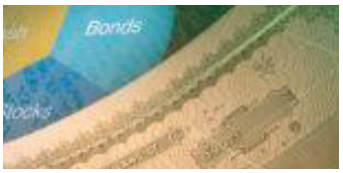



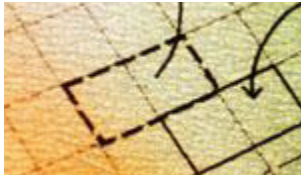

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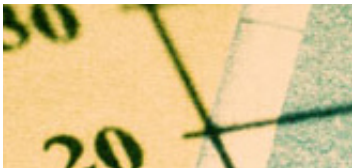


SECURITIES CLASS ACTION SETTLEMENTS: 2006 REVIEW AND ANALYSIS

Like 2005, 2006 proved to be another record-breaking year for securities case settlements. First, the year included the approval of the largest securities case settlement to date—the $6.6 billion partial settlement in the Enron Corporation matter—bringing the total settlement fund to $7.1 billion.[1] Even excluding the Enron settlement, however, the total value of cases settled during the year exceeded all previous years, reaching an unprecedented $10.6 billion. In addition, while median settlement amounts changed little, average settlement amounts in 2006 increased almost five-fold to reach their highest levels to date.[2]

This monograph discusses these and other findings in further detail, updating our prior reports on settlements of cases filed after passage of the Private Securities Litigation Reform Act (Reform Act). Our sample includes 827 class actions settled from 1996 through 2006.[3] Cases are limited to those including allegations of fraudulent inflation in the price of a corporation's common stock. These cases are identified from Institutional Shareholder Services' Securities Class Action Services (SCAS).

Securities class action settlements in 2006 have exceeded all previous yearly totals

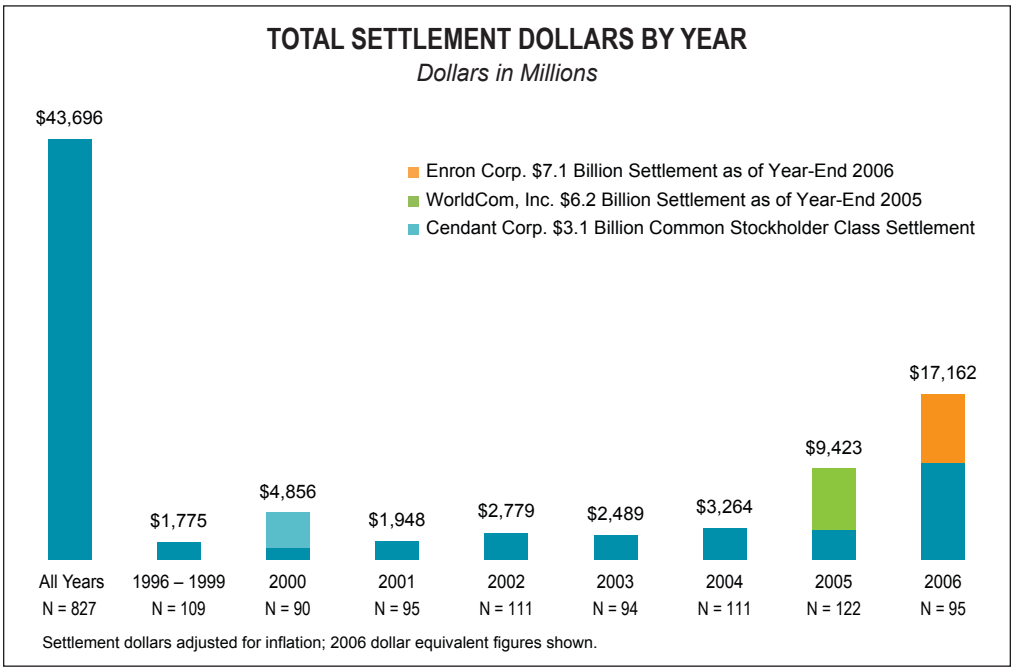


Figure 1

As shown in Figure 1, 2006 far surpassed all previous years in terms of the total value of cases settled. The increase in the total value of cases settled in 2006 was due to an increase in the average settlement size, rather than an increase in the number of cases settled.[4]

For purposes of our research, the designated settlement year corresponds to the year in which the hearing to approve the settlement was held. Cases that include multiple settlements are reflected in the year of the latest partial settlement.[5]

2

The increase in settlement amounts occurred primarily in very large cases, with the median settlement increasing only slightly from $6.7 million for previous post-Reform Act years to $7.0 million in 2006. The median represents the point at which half the data points are greater and half are smaller (i.e., the midpoint).

The extraordinary result for the average settlement in 2006 is driven in part by the presence of four settlements in excess of $1 billion, not including the Enron settlement.[6] However, even without these mammoth settlements, the $45 million average settlement in 2006 is an all-time high and more than twice the average through 2005.

Even excluding the five settlements above $1 billion, the average 2006 settlement was more than twice the average through 2005

SETTLEMENT SUMMARY STATISTICS

	2006	Post-Reform Act Settlements Through 2005
Minimum	$0.3 million	$0.1 million
Median	$7.0 million	$6.7 million
Average	$105.0 million	$22.6 million
Maximum	$2.5 billion	$0.6 billion
Total Amount	$9.9 billion	$16.5 billion

Settlement dollars adjusted for inflation; 2006 dollar equivalent figures shown. Statistics exclude the Enron Corporation settlement totaling $7.1 billion as of year-end 2006, the WorldCom, Inc. settlement totaling $6.2 billion as of year-end 2005, and the Cendant Corporation settlement of $3.1 billion in 2000. Including these cases, the average and total values are $179.1 million and $17.0 billion, respectively, for 2006 and $36.2 million and $26.5 billion, respectively, for all post-Reform Act cases through 2005.

Figure 2

Figure 3 shows that in spite of the dramatic increase in very large settlements, over 60% of all settlements continue to settle for less than $10 million (roughly the same proportion as in prior years). The five settlements in excess of $1 billion in 2006 were part of a larger group of fourteen cases that settled for amounts of $100 million or more, far exceeding the previous records of seven and nine settlements in 2004 and 2005, respectively. The average market capitalization decline associated with these so-called "mega-settlements" was in excess of $40 billion.

There were fourteen settlements in 2006 of $100 million or more

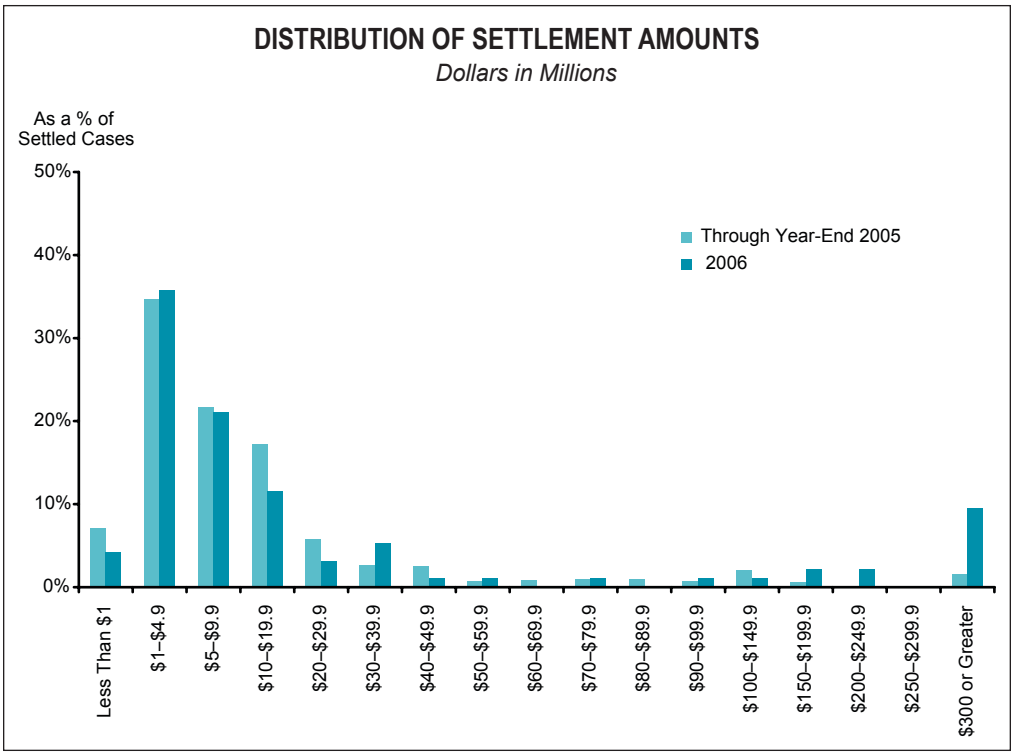


Figure 3

4

The increase in "estimated damages" last year was driven in part by the settlements of cases filed in 2003 and 2004

For purposes of our research, we apply a highly simplified approach to estimate damages, adopted with certain modifications, from a methodology historically used by plaintiffs.[7] In particular, our method makes no attempt to link shareholder losses to allegations included in the complaint. Accordingly, the "damage" amounts presented in this research are not intended to be indicative of actual damages borne by shareholders. However, by applying a consistent method in our computation of "estimated damages" we can examine trends in these amounts.

The increase in average "estimated damages" for cases settled in 2006 is consistent with a prediction discussed in our 2004 report, which forecasted that increases in "estimated damages" would occur when cases filed in 2003 and 2004 were settled. Over 40% of cases settled in 2006 were filed in either 2003 or 2004. Part of the increase in "estimated damages" is due to an increase in the average length of the class period. The average class period in 2006 was 1.9 years, compared to only 1.3 years for all prior post-Reform Act years.

The discrepancy between the magnitude of the median and average statistics arises from a relatively small number of cases for which "estimated damages" are quite large. There were eighteen settlements in 2006 with "estimated damages" in excess of $5 billion, and half of those were in excess of $10 billion.

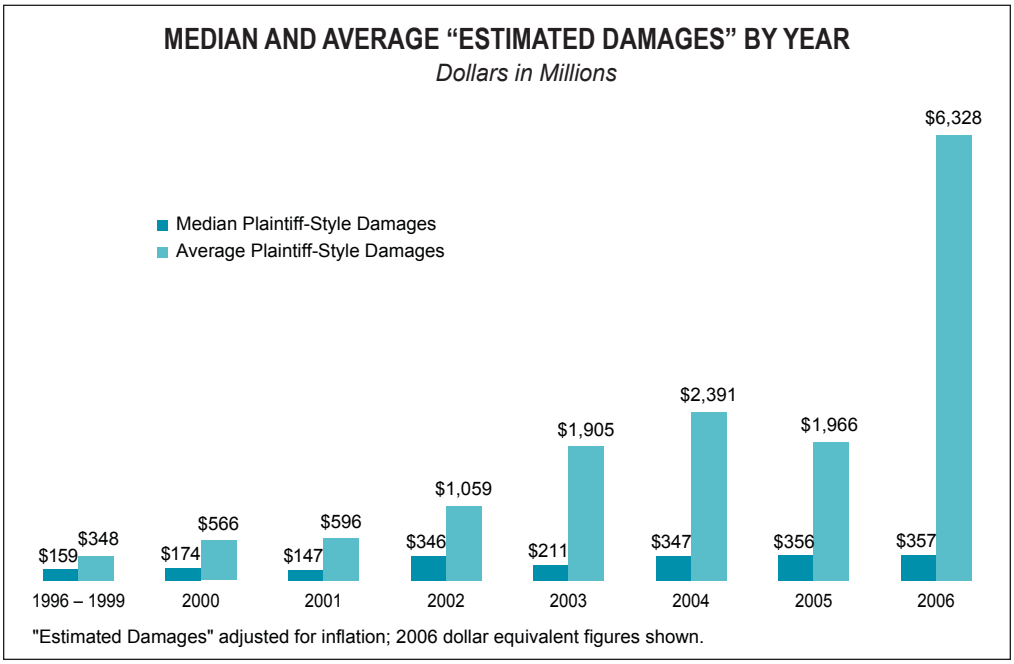
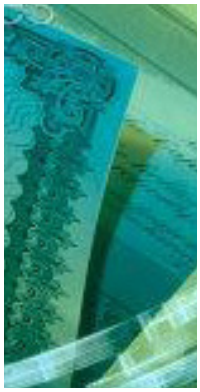


Figure 4



IMPACT OF DURA PHARMACEUTICALS DECISION ON DAMAGE ESTIMATES

On April 19, 2005, the Supreme Court reached a unanimous landmark decision in *Dura Pharmaceuticals v. Broudo (Dura)* ruling that plaintiffs must show a causal link between the alleged misrepresentations and the subsequent actual losses suffered by plaintiffs. Thus, plaintiffs must show that any losses for which they claim damages were caused by the alleged fraud, as opposed to intervening factors. The decision in the *Dura* litigation clearly calls into question typical plaintiff-style damage methodologies that seek to measure recoverable damages as the simple difference between alleged inflation at the time of purchase and alleged inflation at the date of sale, without fully considering whether any changes in inflation were caused by information about the alleged fraud. Moreover, under the *Dura* decision, plaintiffs who sell their securities before information about the alleged fraud reaches the market do not suffer a recoverable loss.

Continuing a trend that began in earlier years but likely furthered by last year's *Dura* decision, the once prevalent "index-backward" approach to calculating damages (described on page 4 and endnote 7) is now rarely used by plaintiffs. As a result, damage calculations applied in research that are based on the index-backward approach are increasingly imprecise proxies for potential damages claimed by plaintiffs. Thus, in our current year research we have explored supplemental measures to represent plaintiff-style damages. Using our settlement prediction model described further on page 18, we find that, for recent years, the inclusion of variables that measure the impact of the stock price decline at the end of the class period (in addition to our traditional measure of "estimated damages") enhances our ability to predict settlements.

However, our regression analysis also reveals that our traditional measure of "estimated damages" still demonstrates the highest correlation with settlement amounts, as compared to measures that are based on the decline at the end of the class period.[8] Therefore, the charts in this report that present settlements in relation to "estimated damages" are based on the traditional "index-backward" based method.

While median "estimated damages" have remained relatively constant over the last few years, the median settlement as a percentage of "estimated damages"—2.4% in 2006—was lower than in all prior years, including the median of 3.1% we reported for 2005.

As we have noted in our prior reports, settlements as a percentage of "estimated damages" generally decrease as damages increase, although this is not always true for the very largest cases. This pattern of declining settlements as a proportion of "estimated damages" as "estimated damages" increase, combined with the fact that average "estimated damages" increased in 2006, may explain in part the lower settlements as a percentage of "estimated damages"for 2006.

It is also possible that the *Dura* decision has led to lower proportionate settlements, as a result of a decrease in damages claimed by plaintiffs. Since the method used to calculate "estimated damages" for purposes of the chart below is the same as in prior years (as previously discussed), this could contribute to the lower settlements as a percentage of "estimated damages" observed overall for 2006.

Constraints on the amount of recoverable damages may have contributed to lower proportional settlements in 2006 overall

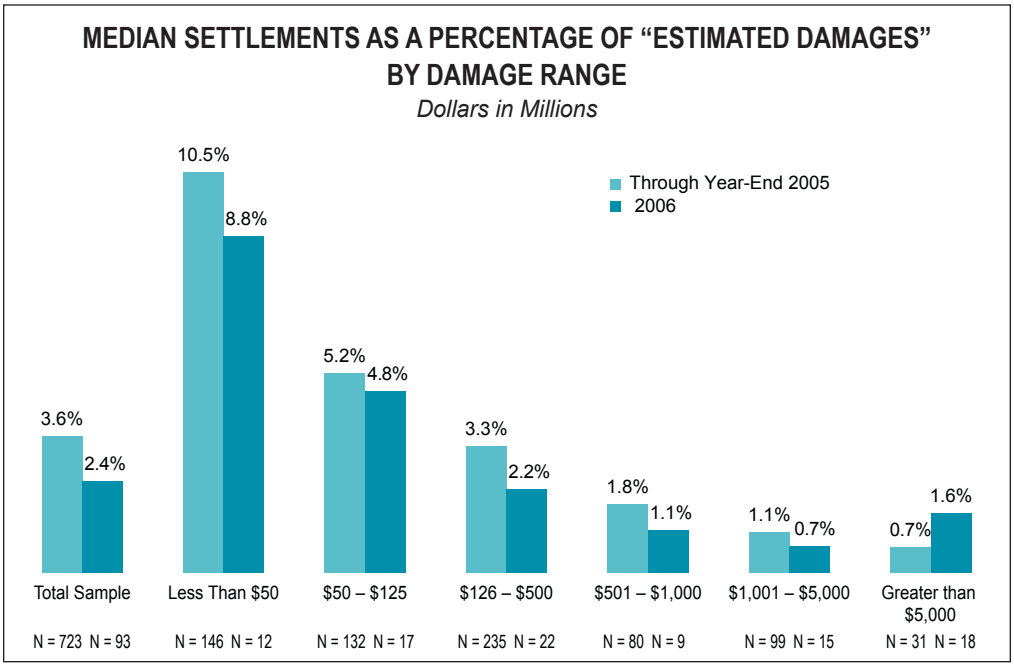


Figure 5

In prior years we have presented median settlements as a percentage of "Maximum Dollar Loss" (MDL), representing the dollar value decrease in the market capitalization of the defendant firm 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. As previously discussed in this monograph, however, under the *Dura* decision, plaintiffs who sell their securities before information about the alleged fraud reaches the market do not suffer a recoverable loss, which in some cases will make the decline from the peak stock price less relevant. Therefore, this year we present settlements in relation to the decline in the market capitalization of the defendant firm from the trading day immediately preceding the end of the class period to the trading day immediately following the end of the class period, referred to as "Disclosure Dollar Loss" (DDL).

This measure is not intended to represent an estimate of damages, as it makes no attempt to isolate movements in the defendant's stock price that are unrelated to case allegations. Nor does this measure capture additional stock price declines during the alleged class period that may affect some purchasers' potential damages claims. Further, this measure does not apply a trading model to estimate the number of shares damaged.[9]

Settlements as a percentage of DDL generally decline as DDL increases

Settlements as a percentage of DDL generally decline as DDL increases (similar to the trend observed with "estimated damages"). However, as shown for 2006, overall, this pattern does not hold for very large cases, which is a function of the unusually large settlements described on page 2. Nevertheless, the difference between very small cases and large cases is considerable, with cases involving DDLs of less than $25 million settling for almost 50% of their decline in market capitalization at the end of the class period.

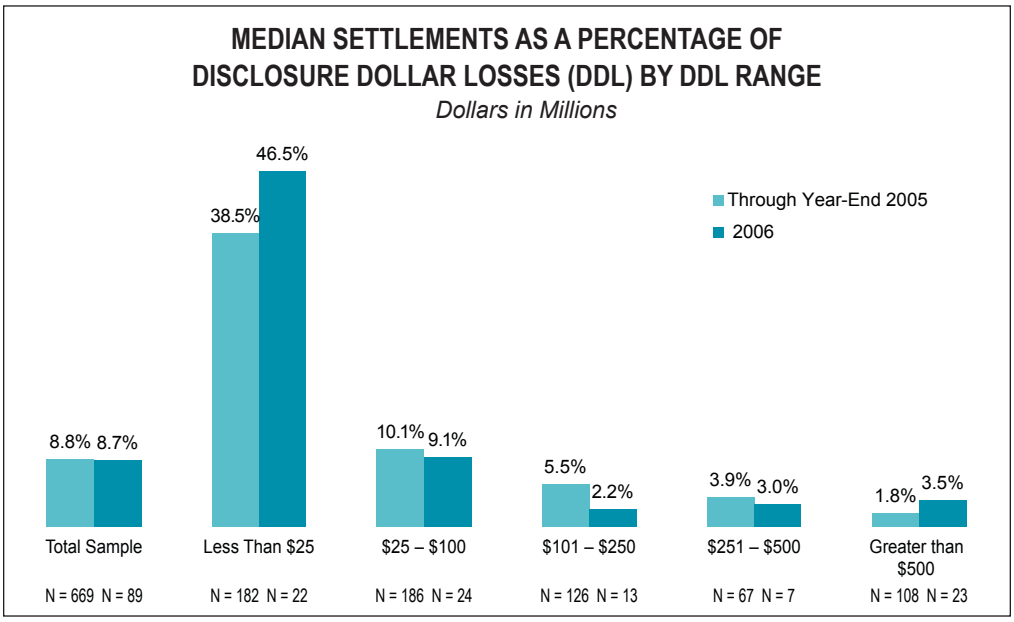


Figure 6

Accounting issues continue to be included in the allegations of over 55% of all cases. Furthermore, these cases continue to settle for a significantly higher percentage of "estimated damages" relative to cases not involving accounting allegations.

At roughly 35% of all 2006 settlements, the proportion of cases involving a restatement of the financial statements declined from 2005 but remained higher than earlier post-Reform Act years.

Accountants have been named in less than 20% of all post-Reform Act settlements through 2006; however, cases involving an accountant as a named defendant continue to settle for the highest percentage of "estimated damages."

The number of cases involving accounting allegations generated over 55% of all settlements

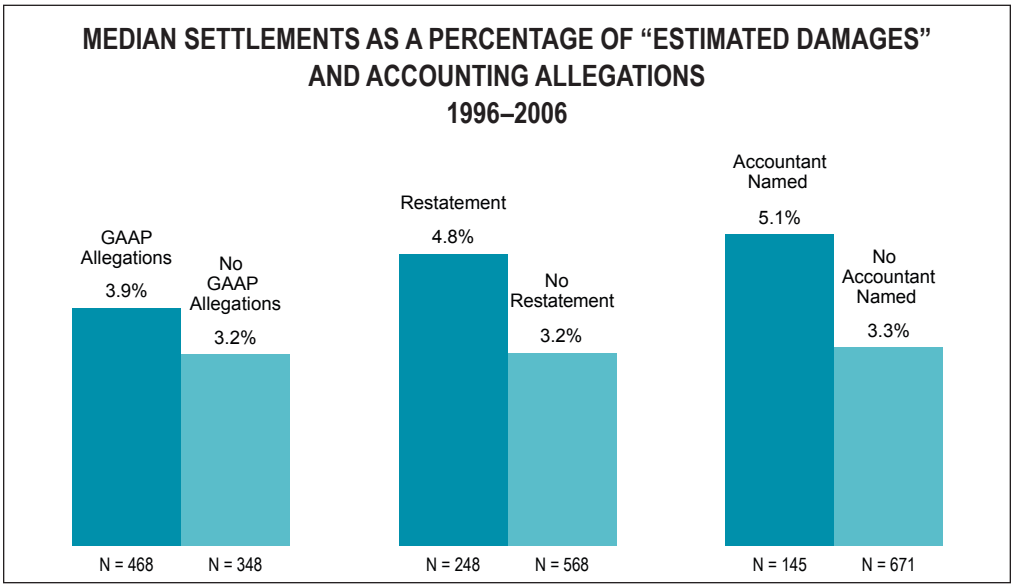


Figure 7

Consistent with prior years, approximately 20% of all post-Reform Act settlements involve Section 11 and/or 12(a)(2) claims. Median settlements as a percentage of "estimated damages" are higher for these cases, compared to cases without these allegations. In cases involving an underwriter as a named defendant, settlements as a percentage of "estimated damages" are even higher.

There is substantial overlap between the inclusion of an underwriter as a named defendant and the presence of Section 11 or 12(a)(2) claims. However, underwriters are named in less than 15% of all cases. When applying multiple regression analysis to control for the presence of an underwriter defendant and other factors, Section 11 and/or 12(a)(2) claims are not associated with a statistically significant increase in settlement amounts.

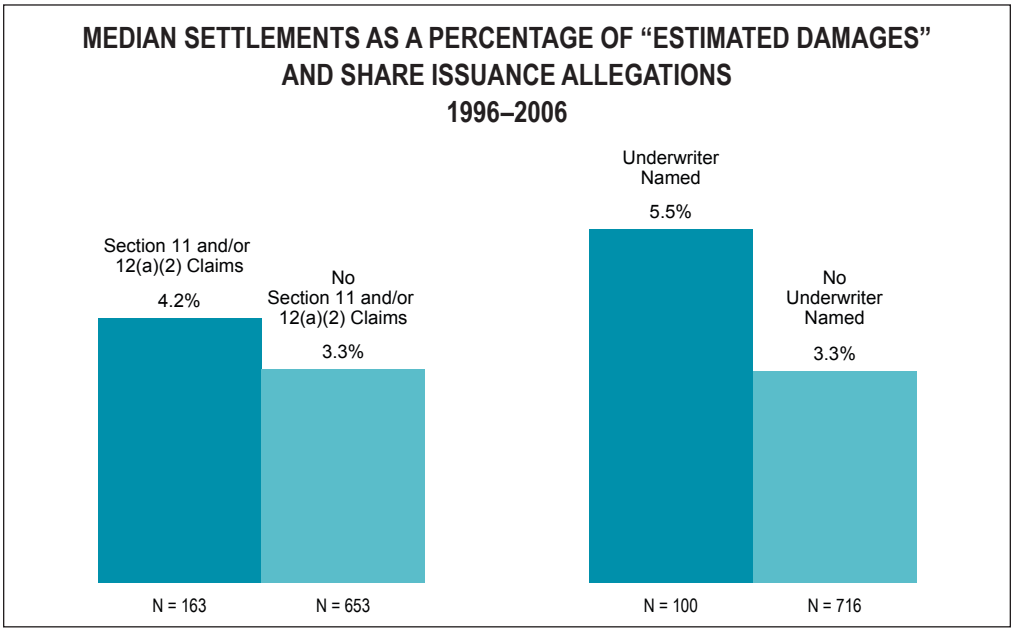


Figure 8

20% of all post-Reform Act settlements involve Section 11 and/or Section (12)(a)(2) claims

In earlier years there were claims that institutions rarely served as lead plaintiffs, despite the intent of Congress to increase their participation with the passage of the Reform Act. However, in recent years, there has clearly been a marked increase in the percentage of cases with institutional investors serving as lead plaintiffs. In fact, institutions served as lead plaintiff in over 50% of all settlements in 2006.

Overall, cases involving institutional investors as lead plaintiffs have significantly higher settlement amounts. As we have previously noted, this does not necessarily indicate a causal effect on settlement outcomes due to institutions' involvement, as it is possible that institutions choose to participate in stronger cases. In addition, part of the cause for higher settlements in these cases is due to the fact that institutions tend to participate in larger cases. However, even controlling for "estimated damages" (i.e., case size), as well as other factors that affect settlement amounts (such as the nature of the allegations), the presence of an institutional investor is associated with a statistically significant increase in settlement size. (See page 18 for a complete list of the control variables considered in testing the effect of institutions serving as lead plaintiffs.)

Overall, cases involving institutional investors as lead plaintiffs have significantly higher settlements

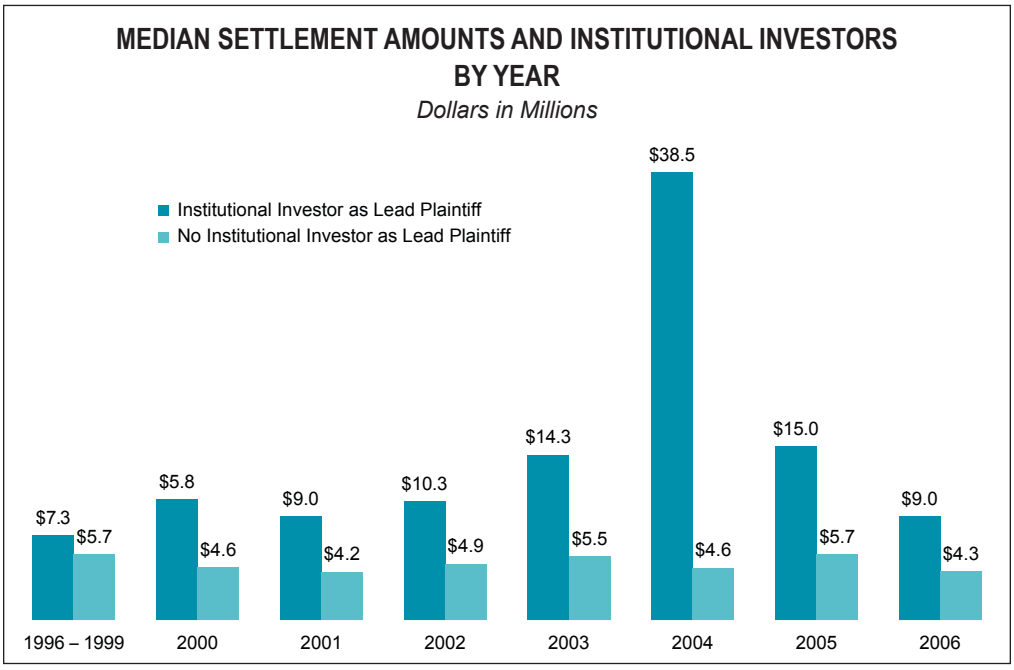


Figure 9

The table below lists the institutions appearing most frequently as lead plaintiffs for post-Reform Act cases settled during 1996–2006. As shown, there are three public pension funds and two union pension funds that have served as a lead plaintiff in four or more post-Reform Act cases. Consistent with the fact that institutions tend to get involved with larger cases, the median settlement amount for cases settled by these plaintiffs is substantially higher than for the sample of post-Reform Act cases as a whole.

At least some of the institutions appearing below have served as a lead plaintiff in cases with filing dates as early as 1996. However, consistent with the general trend in institutional lead plaintiffs, the two most active institutions (Teachers' Retirement System of Louisiana and Local 144 Nursing Home Pension Fund) have increased the frequency of their involvement in more recent years.

Several institutions have served as lead plaintiffs in multiple cases

TOP FIVE INSTITUTIONAL INVESTOR LEAD PLAINTIFFS BY NUMBER OF CASES

Dollars in Millions

Lead Plaintiff	Number of Cases	Total Settlement Funds	Median Settlement	Average Settlement
Teachers' Retirement System of Louisiana	9	$590.5	$30.0	$65.6
Local 144 Nursing Home Pension Fund	6	$316.2	$42.5	$52.7
Plumbers & Pipefitters National Pension Fund	5	$378.0	$99.3	$75.6
Louisiana School Employees Retirement System	4	$379.8	$57.6	$94.9
Louisiana State Employees Retirement System	4	$360.3	$28.6	$90.1

Figure 10

In our prior year report we suggested that the large settlements obtained in 2005 by institutions choosing to pursue individual claims against WorldCom and its underwriters rather than participate in the class action settlement might be the beginning of a trend of an increase in "opt-out" plaintiffs. While it is not clear yet how significant this trend will become, cases with opt-out plaintiffs have continued, and debates about recovery rates for plaintiffs choosing to opt out of class action settlements versus those that participate as class members have been widely covered in the press.

Derivative actions accompanied over 45% of the cases settled in 2006, an increase over 2005

The number of cases involving companion derivative actions has been increasing in recent years. Over 45% of cases settled in 2006 were accompanied by the filing of a derivative action. For purposes of our study, a derivative action, generally a case filed against the officers and directors on behalf of the issuer corporation, must have allegations similar to the class action in nature and time period in order to be considered an accompanying action.[10]

Derivative cases are often resolved with changes to the issuer's corporate governance practices and little or no cash payment—this is true despite the overall increase in corporate controls introduced after passage of the Sarbanes-Oxley Act in 2002. While the settlement of a derivative action does not necessarily result in a cash payment, settlement amounts for class actions accompanied by derivative cases are significantly higher than for cases not involving derivative actions. However, settlements as a percentage of "estimated damages" are slightly lower than for cases without accompanying derivative actions.

Derivative actions tend to be associated with larger class action cases (as measured by "estimated damages" and the assets of the issuer defendant), as well as class actions involving accounting allegations, SEC actions, and institutional investor lead plaintiffs. It is likely that these circumstances attract the accompanying derivative actions, leading to the higher settlements observed in the class actions.

The prevalence of derivative actions varies by jurisdiction. In response to assertions that more substantive derivative cases are typically filed in Delaware, we have investigated whether the association between accompanying derivative cases and higher class action settlements is driven by cases filed in Delaware. Using a regression analysis to control for other determinants of class action settlements, we find that derivative cases filed in states other than Delaware are also associated with statistically significant higher settlements.

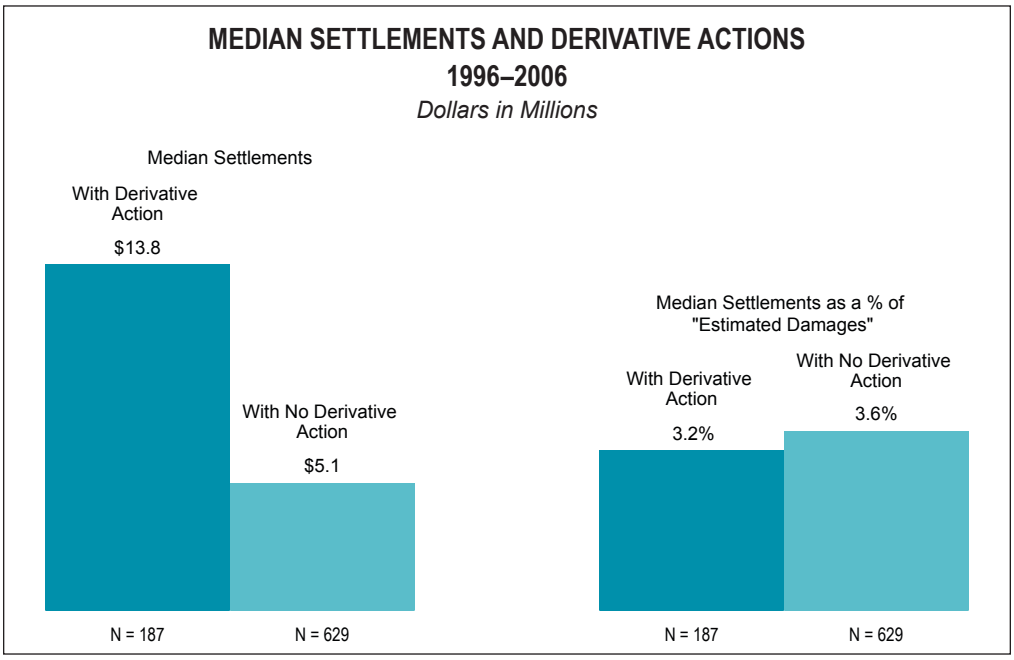


Figure 11

Figure 11 reports settlements classified by whether the case was accompanied by a corresponding filing by the U.S. Securities and Exchange Commission (SEC) of a litigation release or administrative proceeding. Over 20% of all post-Reform Act settlements have involved such SEC actions. As shown, these cases are associated with significantly higher settlement amounts, as well as higher settlements as a percentage of "estimated damages."

MEDIAN SETTLEMENTS AND SEC ACTIONS
1996–2006
Dollars in Millions

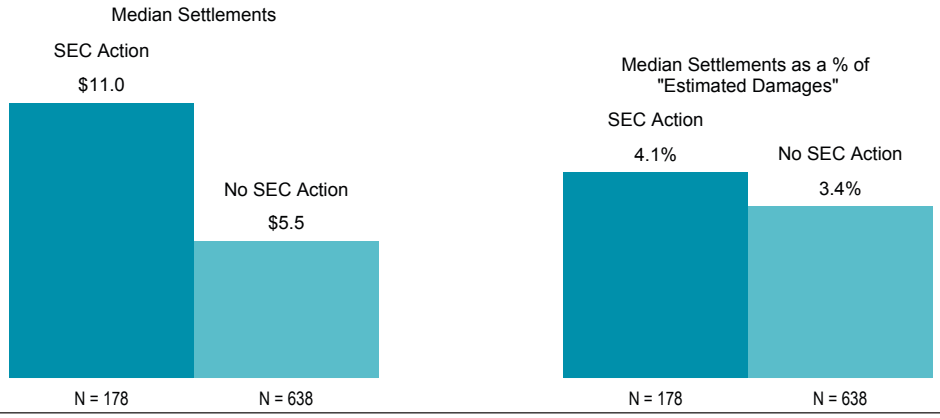


Figure 12

With increasing frequency in recent years, class action settlements have been accompanied by settlements with the SEC. Below are cases from our sample for which settlements have been reached with the SEC in related actions. The majority of such settlements occurred in the 2004–2006 period.[11]

CASES WITH ACCOMPANYING SEC SETTLEMENTS
Dollars in Millions

Case	Settlement Fund in SEC Action	Settlement Fund in Related Class Action
WorldCom, Inc.	$750.0	$6,156.1
Computer Associates International, Inc.	$225.0	$128.6
Bristol-Myers Squibb Company	$150.0	$485.0
Lucent Technologies, Inc.	$25.0	$517.2
i2 Technologies, Inc.	$10.0	$87.8
Gemstar-TV Guide International, Inc.	$10.0	$92.5
Centennial Technologies, Inc.	$5.3	$46.4
Homestore Inc.	$9.0	$95.5
Zomax, Inc.	$2.2	$5.8
Measurement Specialties, Inc.	$1.5	$8.1

Figure 13

Monetary settlements with the SEC for related actions continued in 2006

Cases involving distressed firms are associated with significantly lower settlements

Over 35% of the issuer firms in our sample filed for bankruptcy or had their stock delisted from a major exchange before the class action settlement hearing date. Settlement amounts for these cases are lower than for cases in which the defendant firms do not exhibit these signs of financial distress.

Cases involving distressed firms are substantially smaller in terms of "estimated damages," which helps to explain why settlements as a percentage of "estimated damages" for these cases are approximately the same as for non-distressed firms. When other factors that affect settlement amounts are considered in addition to "estimated damages," the fact that the defendant firm is distressed is associated with a statistically significant decrease in settlement size.

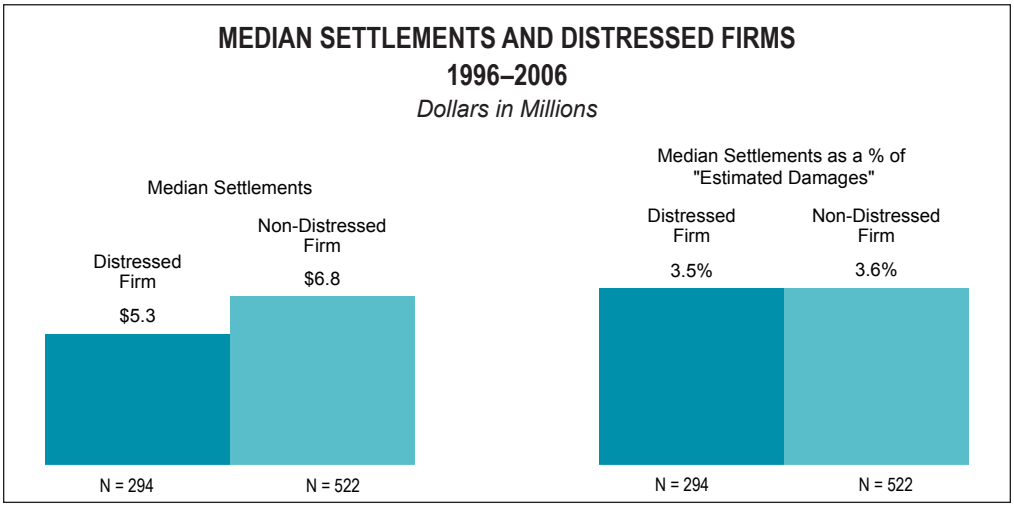


Figure 14

The percentage of settlements involving non-cash components (e.g., stock or warrants) continued to decline for the seventh straight year to 5% in 2006. Non-cash components represented more than 60% of the total settlement value for the few cases that included these components in 2006. In eighteen cases in our sample of all post-Reform Act settlements, non-cash components comprise in excess of 75% of the settlement fund.

The inclusion of non-cash components in the settlement fund is associated with a statistically significant increase in total settlement value, even when controlling for other factors such as "estimated damages" and the nature of the allegations.

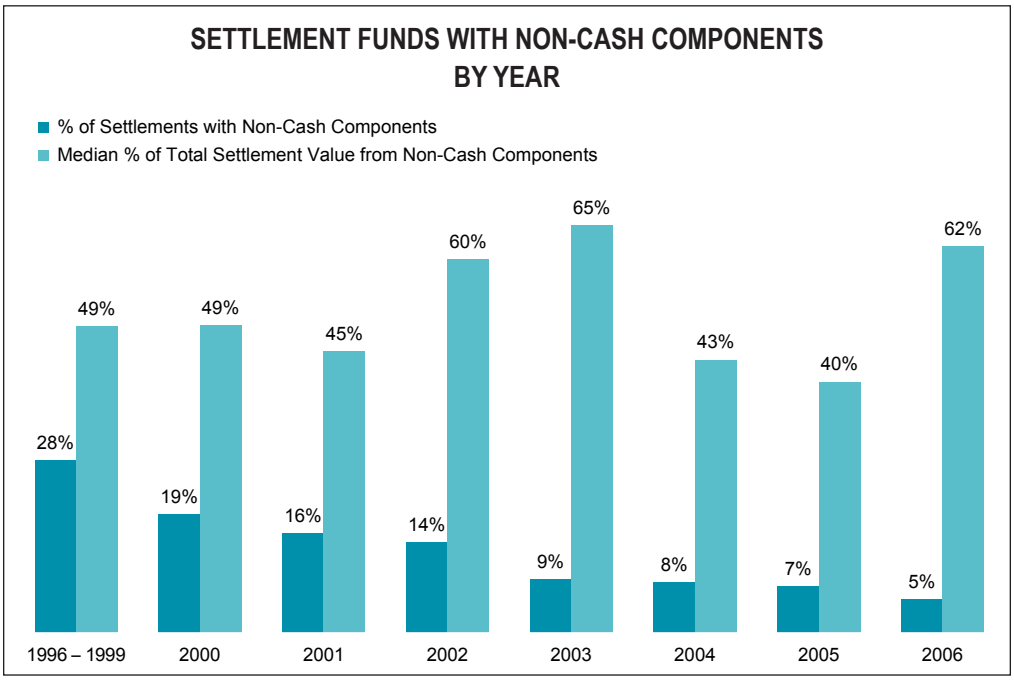
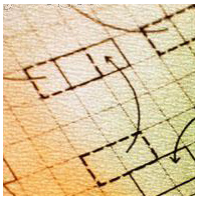


Figure 15

Non-cash components are associated with significantly higher settlements



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Involvement of Lerach Coughlin and/or Milberg Weiss as lead plaintiff counsel is no longer associated with a significant increase in settlement amounts

In prior years we have reported that the law firm of Milberg Weiss Bershad Hynes & Lerach LLP was involved as lead or co-lead plaintiff counsel in roughly 50% of all post-Reform Act settlements.[12] Effective May 1, 2004, the firm separated into Milberg Weiss Bershad & Schulman LLP (Milberg Weiss) and Lerach Coughlin Stoia & Robbins LLP (Lerach Coughlin).

The individual firms of Milberg Weiss and Lerach Coughlin continued to dominate as lead plaintiff counsel in terms of the proportion of settlements in which they were involved in 2006. However, while in prior years we found a significant positive relationship between Milberg Weiss or Lerach Coughlin serving as lead plaintiff counsel and settlement outcomes (even after controlling for the effect of other factors that affect settlements), the current year analysis does not indicate the continuance of such a relationship. It is too early to determine if this change is related to the criminal indictments that faced the Milberg Weiss firm.

SETTLEMENTS BY PLAINTIFF ATTORNEY

	2006		Through Year-End 2005	
Plaintiff Law Firm	% of Settled Cases	Median Settlement as a % of Estimated Damages	% of Settled Cases	Median Settlement as a % of Estimated Damages
Lerach Coughlin, et al.	31%	5.1%	7%	3.9%
Milberg Weiss, et al.	23%	1.5%	7%	1.5%
Predecessor Firm: Milberg Weiss, et al.	—	—	38%	3.9%
Schiffrin & Barroway	12%	1.8%	9%	2.0%
Bernstein Litowitz, et al.	9%	5.7%	6%	3.5%
Abbey Gardy	6%	3.2%	6%	3.7%
Bernstein Liebhard & Lifshitz	6%	0.7%	5%	3.8%
Labaton Sucharow & Rudoff	5%	6.0%	2%	7.3%
Cohen Milstein Hausfeld & Toll	4%	3.7%	2%	2.7%
Berger & Montague	4%	1.8%	8%	3.6%
Weiss & Lurie	4%	1.6%	1%	3.1%
Yourman Alexander & Parekh	3%	4.4%	—	—
Predecessor Firm: Weiss & Yourman	—	—	5%	3.4%
Wolf Haldenstein, et al.	3%	1.2%	3%	1.9%

Figure 16

As shown below, settlements continue to occur most frequently in the Ninth Circuit, namely, the federal district courts in California, followed by the Second Circuit, reflecting the very active southern district of New York.

There is substantial variation between circuits in the number and size of settlements. However, case jurisdiction is often correlated with other factors such as industry sector (e.g., the concentration of the technology sector in the Ninth Circuit). With the exception of the Second Circuit, when controlling for the effects of "estimated damages" and other important determinants of settlement amounts, court circuits are not significant in explaining settlement size. Settlements are higher in the Second Circuit, controlling for other factors.

SETTLEMENTS BY COURT CIRCUIT

Dollars in Millions

	Number of Cases		Median Settlement	
Court Circuit	2006	Through Year-End 2005	2006	Through Year-End 2005
1	5	45	$7.0	$5.7
2	20	110	$9.4	$5.7
3	11	66	$3.5	$6.4
4	2	23	$557.5	$7.0
5	6	60	$41.0	$5.5
6	4	36	$21.2	$10.6
7	5	38	$7.5	$7.3
8	3	25	$3.2	$9.0
9	26	180	$6.4	$6.6
10	3	31	$1.2	$7.0
11	6	77	$7.5	$4.5
DC	1	1	$4.5	$32.5
State	1	31	$1.9	$4.0
Total	**93**	**723**	**$7.0**	**$6.0**

Figure 17

The Ninth Circuit was again the most active federal circuit in the number of settlements

CORNERSTONE RESEARCH SETTLEMENT PREDICTION MODEL

Characteristics of securities cases that may affect settlement outcomes are often correlated with each other, as noted in the discussion of the charts presented in this monograph. The use of regression analysis allows for the examination of the effects of these factors simultaneously. Accordingly, as part of our ongoing research on securities class action settlements, we have applied regression analysis to study the determinants of settlement outcomes. Analysis performed on our sample of post-Reform Act cases settled through December 2006 reveals that variables that are important determinants of settlement amounts include the following:[13, 14]

- Simplified plaintiff-style "estimated damages"
- Disclosure Dollar Losses (DDL)
- Most recently reported total assets of the defendant firm
- The number of entries on the lead case docket
- Indicator for whether a restatement of the financial statements, announced during or at the end of the class period, is involved (or, alternatively, whether GAAP violations are alleged)
- Indicator for whether a corresponding SEC action against the issuer or other defendants is involved
- Indicator for whether an accountant is a named co-defendant
- Indicator for whether an underwriter is a named co-defendant
- Indicator for whether a corresponding derivative action is filed
- Indicator for the year in which the settlement occurred
- Indicator for whether an institution is involved as lead or co-lead plaintiff
- Indicator for whether the firm filed for bankruptcy or was delisted prior to settlement
- Indicator for whether non-cash components, such as stock or warrants, comprise a portion of the settlement fund
- Indicator for whether there are securities other than common stock alleged to be damaged
- Indicator for whether the case was filed in the Second Circuit

Settlements are higher when "estimated damages," defendant asset size, or the number of docket entries are higher. Settlements are also higher with the presence of any of the following variables: a restatement or GAAP violation, a corresponding SEC action, an accountant named as co-defendant, an underwriter named as co-defendant, a corresponding derivative action, an institution involved as lead plaintiff, a non-cash component to the settlement, case filed in the Second Circuit, or securities other than common stock are alleged to be damaged. Settlements are lower if the settlement occurred in 2002 or later, or if the issuer firm filed for bankruptcy, or was delisted prior to the settlement.

Over 65% of the variation in settlement amounts can be explained by the variables listed above.

Our clients are often interested in obtaining estimates of expected settlement amounts in securities cases. Accordingly, from the regression analysis described above, we have developed a prediction model that can be used to estimate expected settlement amounts for post-Reform Act cases. Settlement estimates based on our model are available to Cornerstone Research clients.

CONCLUDING REMARKS

Although average settlement sizes have been increasing in the last few years, 2006 stands out from prior years by the sheer magnitude of the increase that occurred.

Average "estimated damages" also increased dramatically in 2006, contributing to a decline from prior years in overall settlements as a percentage of "estimated damages."

Other interesting findings include the facts that institutions served as a lead plaintiff in over 50% of all cases settled in 2006 and that over 45% of cases settled in 2006 were accompanied by the filing of a derivative action.

SAMPLE AND DATA SOURCES

The sample of cases discussed in this monograph was identified from Institutional Shareholder Services' Securities Class Action Services (SCAS). Our database is limited to cases alleging fraudulent inflation in the price of a corporation's common stock (i.e., excluding cases filed only by bondholders, preferred stockholders, etc. and excluding cases alleging fraudulent stock price depression). Inclusion in our sample is also limited to cases alleging Rule 10b-5, Section 11 and/or Section 12(a)(2) claims brought by purchasers of a corporation's common stock. These criteria were imposed to ensure data availability and to provide a relatively homogeneous set of cases with respect to the nature of the allegations.

In addition to the SCAS, data sources include Factiva, Bloomberg, the Center for Research in Security Prices at the University of Chicago, Standard & Poor's Compustat, court filings and dockets, SEC registrant filings, SEC litigation releases and administrative proceedings, LEXIS-NEXIS, and the public press.

ENDNOTES

1. Includes amounts settled in prior years.
2. Comparison to prior years also excludes the Cendant Corporation settlement in 2000 and the WorldCom settlement in 2005.
3. For all figures involving "estimated damages" ten settlements are excluded due to a lack of available stock price data, and the WorldCom settlement is excluded since the majority of the amounts settled in the case relate to liability associated with bond offerings (and our research does not compute damages related to securities other than common stock).
4. The small number of settlements in the early years following passage of the Reform Act reflects the fact that, overall, securities cases typically settle almost three years after they are filed (and our sample is limited to cases filed after December 22, 1995).
5. Movements of partial settlements between years can cause differences in amounts reported for prior years from those presented in earlier publications.
6. The four settlements in excess of $1 billion include: AOL TimeWarner, two Nortel Networks cases, and Royal Ahold.
7. Our simplified plaintiff-style model is applied to common stock only. For all cases involving Rule 10b-5 claims, damages are determined from a market-adjusted backward value line. For cases involving only Section 11 and/or 12(a)(2) claims, damages are determined from a model that caps per-share damages at the offering price. A volume reduction of 50% for shares traded on Nasdaq and 20% for shares listed on NYSE or AMEX is used. Finally, no adjustments for institutions, insiders, or short sellers are made to the float.
8. This may be due to the fact that in cases in which there are multiple alleged corrective disclosures, measures that focus on the stock price decline at the end of the class period will not capture the total inflation alleged by plaintiffs.
9. We present DDL information in Figure 6 to provide a benchmark for the convenience of our readers since the measure is simple to compute and does not require application of a trading model.
10. Accompanying derivative actions are identified primarily through a search of the public press and review of court dockets and SEC filings.
11. Figure 13 does not include preliminary settlements (i.e., settlements that have been announced but not yet approved).
12. Determination of involvement as lead or co-lead counsel is based upon reporting by the SCAS.
13. The settlement model does not capture the effect of non-public or non-measurable factors that influence settlement outcomes. These factors include the relative merits of the case, as well as limits of available insurance.
14. Due to the presence of extreme observations in the data, logarithmic transformations are applied to settlement amounts, "estimated damages," the defendant's total assets, and the number of docket entries.

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