

NEWS RELEASE

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FOR IMMEDIATE RELEASE

Securities Fraud Class Actions Tumbled to an All-Time Low in 2006, Finds New Study by Stanford Law School and Cornerstone Research;

Strong Federal Enforcement Activity and Stable Stock Market Contribute to Decline

Boston & Palo Alto, January 2, 2007 – The number of securities fraud class actions filed in 2006 was the lowest ever recorded in a calendar year since the adoption of the Public Securities Litigation Reform Act (PSLRA) of 1995, notes the Securities Class Action Filings 2006 Year in Review report released today by the Stanford Law School Securities Class Action Clearinghouse, a joint project between Stanford Law School and Cornerstone Research. The study reports securities fraud class actions decreased by 38 percent since 2005, plunging from 178 filings to just 110, making this year's numbers nearly 43 percent lower than the ten-year historical average of 193.

Additional indices tracked by the Clearinghouse confirm a significant decline. John Gould, Vice President of Cornerstone Research and a contributor to the study, noted that the decrease in securities class action activity in 2006 is even more dramatic when measured by the associated market capitalization losses. For instance, in 2006 the total Disclosure Dollar Loss (market capitalization losses at the end of the class period, typically the time of the disclosure of the alleged fraud), as measured by the Clearinghouse's DDL Index™, sank a remarkable 44 percent from \$93 billion in 2005 to only \$52 billion in 2006. The total Disclosure Dollar Loss is now 58% below its historic average of \$124 billion, and only 21% of the historic peak observed in 2000. The total Maximum Dollar Loss in 2006 (shareholder losses measured by the largest capitalization decline experienced during the class period), tracked by the Clearinghouse's MDL Index™, fell from \$362 billion in 2005 to \$294 billion in 2006. The total Maximum Dollar Loss is now 57% below the historic average of \$680 billion per year, and only 14% of the historic peak observed in 2002.

“The DDL and MDL statistics show the combined impact of less filings and lower market capitalization losses per filing. These numbers are potentially indicative of a new era in the securities litigation arena,” said Gould.

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The decline is even more striking when filings alleging options backdating are excluded. To date, there have been 22 securities class actions filed related to options backdating allegations, 20 of which were filed in 2006. Excluding the options backdating cases from the sample, as these reflect one-time events that will not recur in the future, suggests that “core” securities class action litigation in 2006 was only 90 cases, a decline of 53% from the historic norm. The MDL for these 90 cases is \$198 billion (71% below the historic average) and the DDL for these cases is \$42 billion (66% below the historic average).

Incidences of “mega” filings—cases with DDLs in excess of \$5 billion or MDLs in excess of \$10 billion—also declined in 2006. There was only one “mega” DDL filing in 2006, whereas there were 5 such filings in 2005. There were 8 “mega” MDL filings in 2006, 4 of which were driven by option backdating claims. In contrast, there were 9 “mega” MDL filings in 2005.

Reasons

The study attributes the record low numbers of securities fraud class action filings in 2006 to three primary factors. First, the strengthened federal enforcement environment reflected in the pressure that the SEC and Department of Justice now bring to bear on corporations to conduct internal investigations that implicate the individual executives responsible for the fraud, may be reducing the amount of fraud in the market. Second, a strong stock market combined with lower stock price volatility typically reduces the number of cases filed. Third, the overwhelming majority of securities fraud class actions that were filed in the late 1990s to the early 2000s are now behind us. While the boom and bust cycle of this era may have contributed to the peak, the numbers in 2006 are low even when compared to pre-peak activity.

“These are unprecedented numbers, and my bet is that the private securities fraud litigation market is shrinking because corporations are engaging in less activity that gives plaintiffs an excuse to file a complaint alleging fraud,” explained Stanford Law School Professor Joseph Grundfest, Director of the Securities Class Action Clearinghouse, co-Director of the Rock Center on Corporate Governance, and former Commissioner of the Securities and Exchange Commission. “The federal government is a much more aggressive adversary than the private bar, and the feds can force a level of compliance that private class action lawyers could never touch. I think we are seeing the effects of a tougher and smarter campaign against white collar fraud by the SEC and Department of Justice.”

Fraud Allegation Trends

There were more allegations of specific accounting irregularities in the complaints filed in 2006 compared to 2005, a trend that is consistent with last year’s findings and indicates a continued concern over the quality of financial reporting. Of significance, there was a more than 70 percent spike in the percentage of cases involving “other” accounting allegations, jumping from 37 percent of all accounting allegations in 2005 to 63 percent in 2006. Almost half of the “other” accounting allegations were related to stock options issuances.

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Industry Activity

The distribution of case filings by industry in 2006 was similar to that observed in 2005. The Consumer Non-Cyclical sector (e.g., commercial services, biotechnology, food, pharmaceuticals, etc.) again proved to be the major source of securities class action litigation in 2006, accounting for 33 percent of the total number of filings and the highest DDL. The Consumer Cyclical and Technology sectors were also large contributors, as 5 of the top 10 MDL cases were filed against tech sector companies (accounting for almost 50 percent of the Maximum Dollar Loss).

Circuit Activity

The Second Circuit (New York) was again the most active federal circuit in terms of number of filings, although the court's total filings dropped 26 percent since 2005 (42 filings in 2005; 31 filings in 2006). The Ninth Circuit (California) followed close behind with 25 filings, 11 of which were options backdating cases. The Third Circuit (Delaware/Pennsylvania) and Eleventh Circuit (Florida/Georgia/Alabama) had just 11 filings each. Historically the Second, Third, and Ninth Circuits have had the largest disclosure dollar losses. The highest levels of DDL in 2006 were recorded in the Second Circuit (\$26 billion), followed by the Eleventh Circuit (\$8 billion), and Ninth Circuit (\$7 billion).

Professor Grundfest and Dr. Gould are available to speak to the media about the report. The full text of the 2006 Year in Review report can be found on both the Clearinghouse site at <http://securities.stanford.edu> and on Cornerstone Research's website at <http://www.cornerstone.com>.

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.

Cornerstone Research (www.cornerstone.com) provides financial and economic analysis in civil litigation, regulatory proceedings, business consulting, and public policy analysis, and concentrates in matters involving securities, antitrust, intellectual property, financial institutions, energy, and accounting. Cornerstone Research cosponsors the Stanford Law School Securities Class Action Clearinghouse. The firm has offices in Boston, Los Angeles, Menlo Park, New York, San Francisco, and Washington.

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