



SECURITIES LITIGATION FAST FACTS

Securities Class Action Settlement Data

- **Settlements from securities class actions totaled \$25.4 billion** for 755 cases settled between December 1995 and August 2005 (*The Economic Reality of Securities Class Action Litigation*, A.V. Thakor with Navigant Consulting, 2005). By contrast, in 1994 – the year before Congress enacted the PSLRA – total settlements from all securities class action lawsuits were \$899 million (*Securities Class Action Settlements: An Empirical Analysis*, M. Bajaj, S.C. Mazumdar & A. Sarin, 2000).
- **Five law firms in the 755 cases examined by Thakor with Navigant were involved in more than 70 percent of final settlements of securities class actions involving alleged fraud from 1995 to 2005.** Those settlements resulted in more than \$10 billion in settlement dollars of which \$2.75 billion went to lawyers' fees and expenses (Data source: Securities Class Action Services).
- **Of these 755 class action settlements, the Milberg Weiss firm alone handled 43 percent, generating \$1.7 billion in legal fees and expenses.** Its next closest competitor, Shrifin & Barroway, handled just 7.8 percent of settlements from 1995-2005, collecting over \$191 million in fees and expenses (Data source: Securities Class Action Services). Law firms drive the litigation, recruit plaintiffs and organize litigation efforts.
- **The size of securities class action settlements and new filings is growing dramatically.** In 2002, there were four settlements of \$100 million or more. That number grew to six in 2003 and to nine in 2004 (*2004 Securities Litigation Study*, PricewaterhouseCoopers, 2004). In 2003, the average size of a new filing was \$350 million. One year later, in 2004, the average size had grown to \$883 million (*Securities Class Action Filings 2004: A Year in Review*, Cornerstone Research, 2004).

Key Findings from *The Economic Reality of Securities Class Action Litigation*, Anjan V. Thakor with Navigant Consulting, 2005*

- **Large institutional investors generally break even from their investments in stocks impacted by fraud allegations** because financial losses resulting from ill-timed purchases of inflated shares of one stock are, over time, largely or completely offset by financial gains generated from well-timed sales of inflated shares of a different stock.
- **Large institutional investors often receive a net benefit even before settlement proceeds are taken into account.** Out of 2,394 institutional investors eligible to participate in securities class action litigation, 31 percent realized a net benefit before taking any settlement proceeds into account. That number rises to 40 percent once settlement is included.
- **Losses claimed in litigation are often much larger than net trading losses.** Large institutional investors' net trading losses were less than 25 percent of the gross losses claimed in litigation.

-OVER-



SECURITIES LITIGATION FAST FACTS

- **To the extent that trading losses do result from alleged securities fraud, they arise primarily from the issuance of new common shares while the alleged fraud is ongoing.** When a company issues no new shares during a class period, there will be no net harm to investors as a whole.
- **Undiversified investors are at greater risk to lose money** as a result of securities fraud litigation because they lack the robust portfolios of diversified institutional investors that can offset those losses.

Conclusions from *The Unintended Consequences of Securities Litigation*, Anjan V. Thakor, 2005*

- **The mere filing of a securities class action lawsuit on average results in a 3.5 percent drop in the defendant company's equity value.** In the context of firms examined in *The Economic Reality of Securities Litigation*, this implies that at least \$24.7 billion in shareholder wealth was wiped out just due to litigation.
- **The wealth destroyed for defendant companies is not commensurate with the gains of plaintiffs;** defendant companies lose far more than the settlement dollars they pay to plaintiffs. They suffer ongoing losses in equity, capital investment and development opportunities. These losses are compounded for smaller defendant firms with fewer resources.
- Firms invest more capital when stock prices are high and substitute capital investment with cost-cutting measures when stock prices are low. **Hence, the lowering of a firm's stock price due to litigation could result in lower capital investments by firms, which has obvious implications for job creation and economic growth.**

*Complete copies of *The Economic Reality of Securities Class Action Litigation* and *The Unintended Consequences of Securities Litigation* are available online at www.instituteforlegalreform.org.

###