

CORNERSTONE RESEARCH

Economic and Financial Consulting and Expert Testimony

Securities Class Action Filings

2018 Midyear Assessment

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Executive Summary

Federal class action securities fraud filings continued at near record levels in the first half of 2018. Plaintiffs have filed more than 750 federal securities class actions since midyear 2016—the most prolific 24-month period since enactment of the Private Securities Litigation Reform Act of 1995 (PSLRA).

Core filings increased 28 percent after a sharp decline in the second half of 2017. In a reversal of recent trends, the number of federal filings involving merger and acquisition (M&A) transactions decreased.

Nine mega DDL filings (at least \$5 billion) and 11 mega MDL filings (at least \$10 billion) lifted aggregate market capitalization losses to levels not seen since 2002.

Number of Filings

- Plaintiffs filed **204 new federal class action securities fraud cases** (filings) in the first six months of 2018, twice the 1997–2017 semiannual historical average. (pages 4–5)
- **“Core” filings**—those excluding M&A claims—increased 28 percent in the first half of 2018. (pages 4–5)
- **M&A filings** decreased almost 9 percent in the first half of 2018, from 102 to 93. (pages 4–5)

Size of Filings

- **Disclosure Dollar Loss (DDL)** was \$157 billion, 162 percent above the historical average. (page 6)
- After a dip in 2017, **Maximum Dollar Loss (MDL)** rose to \$643 billion, more than double the historical average. (page 7)
- Nine **mega DDL filings** (DDL of at least \$5 billion) made up 69 percent of DDL, and 11 **MDL mega filings** (MDL of at least \$10 billion) made up 75 percent of MDL. Both percentage figures are above their respective historical averages. (pages 8–9)

Figure 1: Semiannual Class Action Filings Summary

	Semiannual (1997 H1–2017 H2)			2017 H1	2017 H2	2018 H1
	Average	Max	Min			
Class Action Filings	102	223	55	223	189	204
<i>Core Filings</i>	91	127	55	127	87	111
Disclosure Dollar Loss (\$ Billions)	\$60	\$164	\$11	\$72	\$59	\$157
Maximum Dollar Loss (\$ Billions)	\$301	\$1,121	\$52	\$291	\$230	\$643

Key Trends

Filings against non-U.S. companies declined slightly in the first half of 2018, after increasing every year since 2013. Filings involving Asian and European firms were more than double 1997–2017 historical averages.

Driven by nine core filings against Internet companies, the Communications sector had 17 filings, seven more than the Financial sector. Class actions related to initial coin offerings (ICOs) or tied to cryptocurrencies continued into 2018 with seven core filings.

U.S. Companies

- In the first half of 2018, 4.6 percent (annualized) of **U.S. exchange-listed companies** were the subject of core filings. (page 14)
- Core filings against **S&P 500 firms** in the first half of 2018 occurred at an annualized rate of 9.6 percent, the highest rate since 2002. (page 19)

Non-U.S. Companies

- On an annualized basis, core filings against **non-U.S. issuers** as a percentage of total core filings declined for the first time since 2013. (page 15)
- **European and Asian firms** were the most frequent targets. (page 16)

By Industry

- Core filings against companies in the **Communications sector** increased to 17, nearly triple the number in the second half of 2017. (page 21)
- The **Consumer Non-Cyclical sector** again had the greatest number of filings with 34. Of these, 29 were against biotechnology, pharmaceutical, and healthcare companies. (pages 21–22)

By Circuit

- There were 29 and 42 core filings in the **Second and Ninth Circuits**, respectively. (page 23)
- The number of core filings decreased in the **Second and Eleventh Circuits**, compared to the first and second halves of 2017. (page 23)

M&A Filings by Circuit

- **M&A filings** continued to be most common in the Third and Ninth Circuits, with 23 and 22 filings, respectively. (page 10)

Initial Coin Offerings

- Core filings involving **ICOs or cryptocurrencies** continued into the first half of 2018, five in late 2017 and seven in the first half of 2018. Two of these 12 filings have a parallel action in California state courts. (pages 4–5)

Featured Analysis: California State Court Section 11 and Section 12 Cases

In recent years, securities class action filings with Securities Act of 1933 (1933 Act) claims have increased in California state courts. Many of these filings have parallel federal court proceedings. This report tracks California state filings with Section 11 claims, and starting in 2018, those with either Section 11 or Section 12 claims.

- Between 2010 and the first half of 2018, plaintiffs filed 60 class actions with 1933 Act claims in California state courts. (pages 11–12)
- In the first half of 2018, five cases were brought in California state courts with Section 11 or Section 12 claims. Of the five cases, one had a parallel federal filing alleging similar claims.
- These cases were concentrated in the San Francisco Bay Area during the first half of 2018, as they have been in the prior two years.

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In March 2018, the U.S. Supreme Court issued a unanimous opinion in Cyan Inc. v. Beaver County Employees Retirement Fund, allowing plaintiffs to assert 1933 Act claims in state court.

Figure 2: California State Court Section 11 and Section 12 Class Action Filings Summary

	Semiannual Average (2010 H1–2017 H2)	2017 H1	2017 H2	2018 H1
Section 11 and Section 12 Class Action Filings				
Filings in California State Courts Only	2	0	0	4
Parallel Filings in State and Federal Courts	2	5	2	1
Total	3	5	2	5
Maximum Dollar Loss (\$ Billions)				
MDL of Filings in California State Courts Only	\$3.6	\$0.0	\$0.0	\$0.1
MDL of Filings in State and Federal Courts	\$2.1	\$9.6	\$0.2	\$3.5
Total MDL	\$5.7	\$9.6	\$0.2	\$3.6

Note:

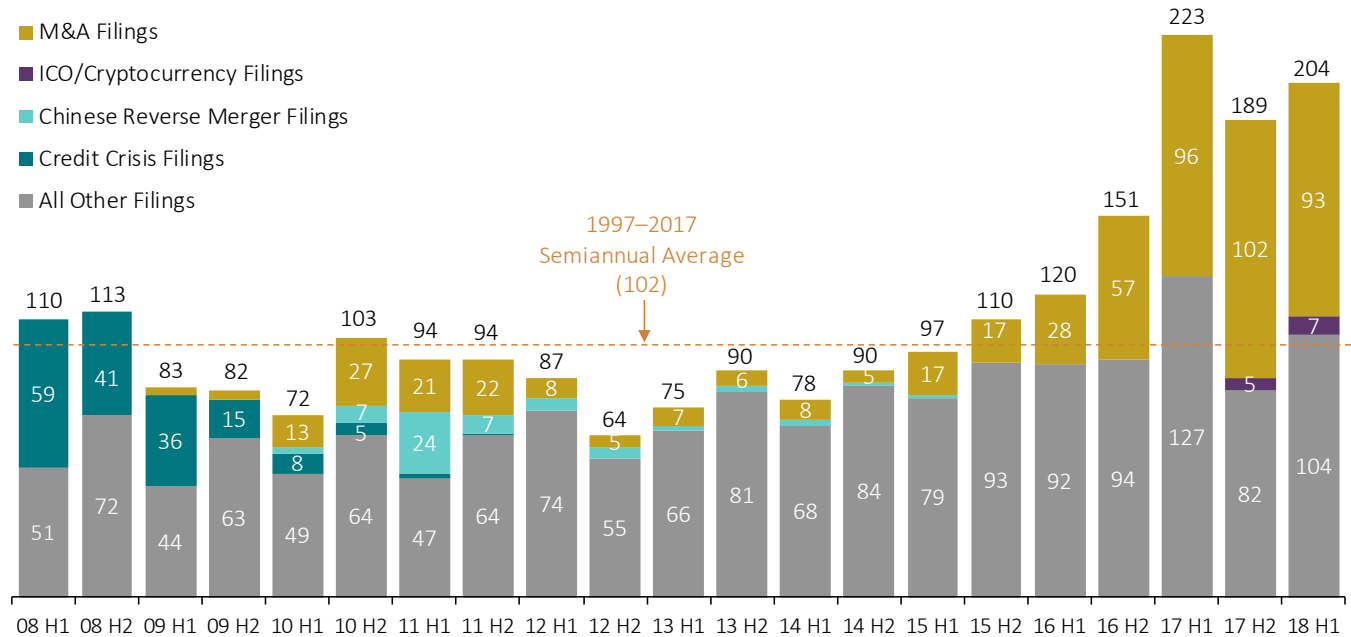
1. Filings in California state courts may have parallel cases filed in federal courts. When parallel cases are filed in different years, the earlier filing is reflected in the figure above.
2. In 2018, the Securities Class Action Clearinghouse began tracking 1933 Act filings in California state courts containing Section 11 or Section 12 claims.
3. Average figures may not sum due to rounding.

Number of Filings

- There were 204 filings in the first half of 2018, an 8 percent increase from the second half of 2017. The number of semiannual filings is the second-highest since enactment of the PSLRA. See Appendix 1.
- After increasing for six consecutive semiannual periods, M&A filings declined to 93 in the first half of 2018, although the absolute number remains at historically high levels.
- The number of core filings rose from 87 in the second half of 2017 to 111 in the first half of 2018.
- There were seven core filings related to ICOs and cryptocurrencies, continuing a trend that began in the final months of 2017.

M&A filings made up 46 percent of all class actions in the first half of 2018.

Figure 3: Class Action Filings Index® (CAF Index®) Semiannual Number of Class Action Filings 2008 H1–2018 H1

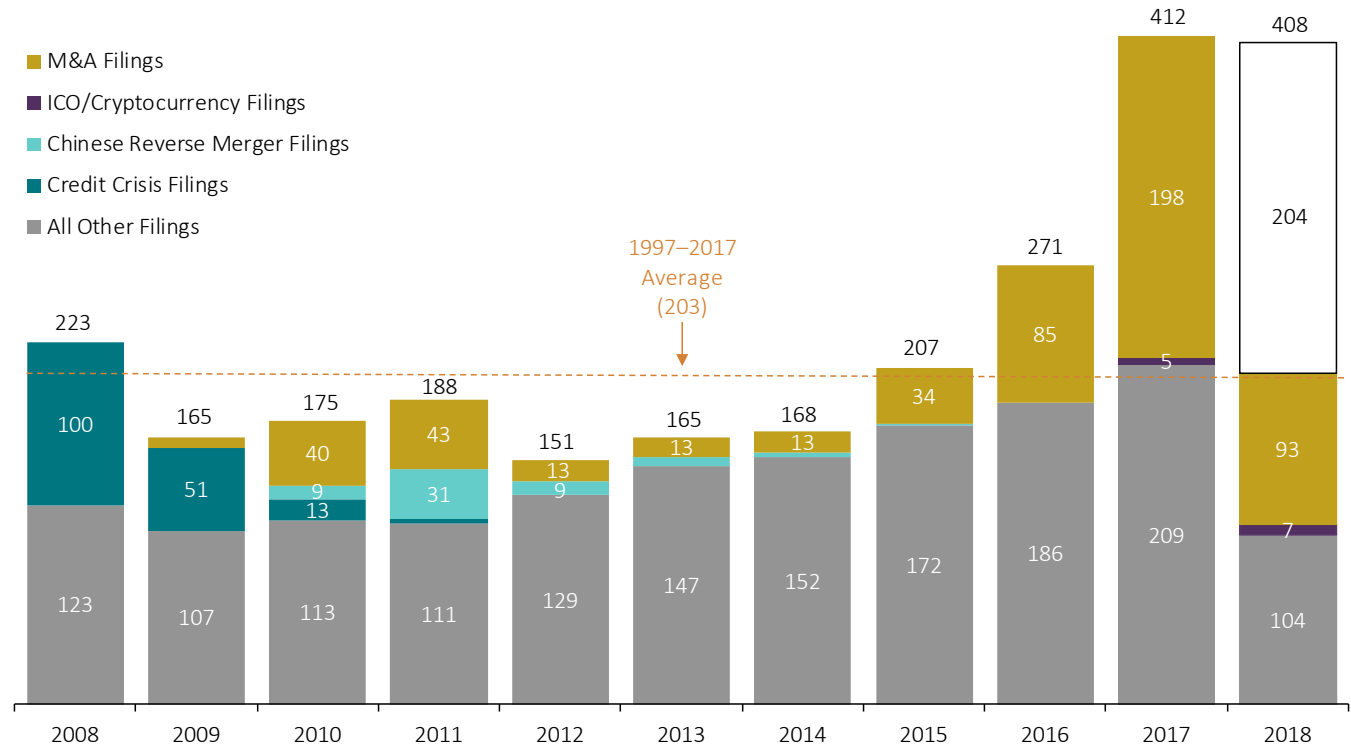


Note: When a filing has M&A claims as well as other claims, it is counted as an M&A filing. Two cases in 2011 were both an M&A filing and a Chinese reverse merger filing. These filings were classified as M&A filings to avoid double counting.

- An annualized number of 408 filings would represent a 101 percent increase over the 1997–2017 historical average of 203 filings, and a 1 percent decrease from 2017.
- If filings continue at the same rate for the remainder of 2018, both core and M&A filings will be at levels similar to 2017.

If the pace continues for the remainder of 2018, the number of annual filings will be second only to 2017.

Figure 4: Class Action Filings Index® (CAF Index®) Annual Number of Class Action Filings 2008–2018 H1



Note:

1. When a filing has M&A claims as well as other claims, it is counted as an M&A filing. There were two cases in 2011 that were both an M&A filing and a Chinese reverse merger filing. These filings were classified as M&A filings to avoid double counting.
2. Assumes the number of filings in the second half of 2018 will equal the first half.

Market Capitalization Losses

Disclosure Dollar Loss Index® (DDL Index®)

This index measures the aggregate DDL for all filings over a period of time. See the glossary for additional discussion on market capitalization losses and DDL.

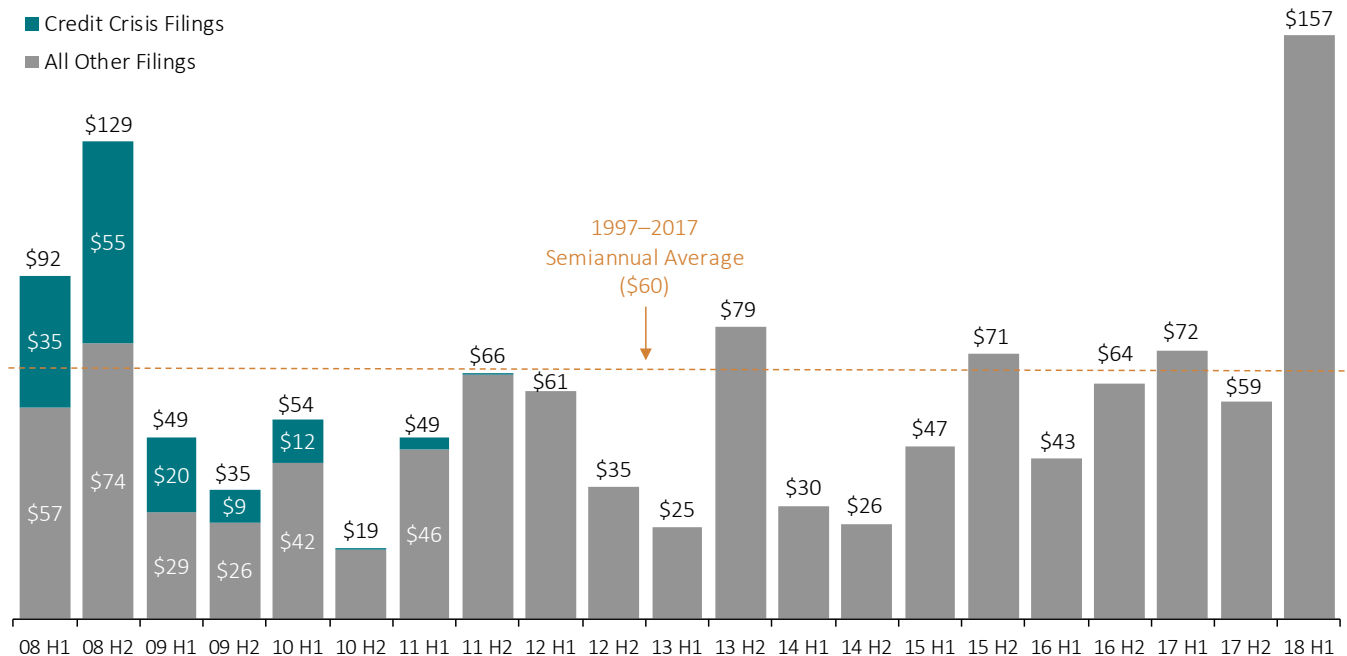
- The DDL Index increased 166 percent from the second half of 2017 to \$157 billion—the second-highest semiannual amount since 1997.
- DDL in the first half of 2018 is 162 percent greater than the 1997–2017 semiannual historical average.
- Several mega filings contributed to the increase in DDL. The number of M&A filings remained high, but these do not affect DDL since they do not typically involve a “stock-drop” allegation.

- DDL per filing also increased substantially in the first half of the year. The median DDL per filing was at a record high and was 26 percent above the second half of 2017. Average DDL per filing increased 107 percent. See Appendix 1.
- DDL was most concentrated in the Communications (33 percent), Consumer Non-Cyclical (27 percent), Financial (13 percent), and Technology (11 percent) sectors.
- The share of DDL for Communications was nearly double its historical average, while Consumer Non-Cyclical, Financial, and Technology were slightly below their respective historical averages. See Appendix 2.

The significant increase in DDL was due to generally larger filings, including multiple mega filings.

Figure 5: Disclosure Dollar Loss Index® (DDL Index®)
2008 H1–2018 H1

(Dollars in Billions)



Maximum Dollar Loss Index® (MDL Index®)

This index measures the aggregate MDL for all filings over a period of time. See the glossary for additional discussion on market capitalization losses and MDL.

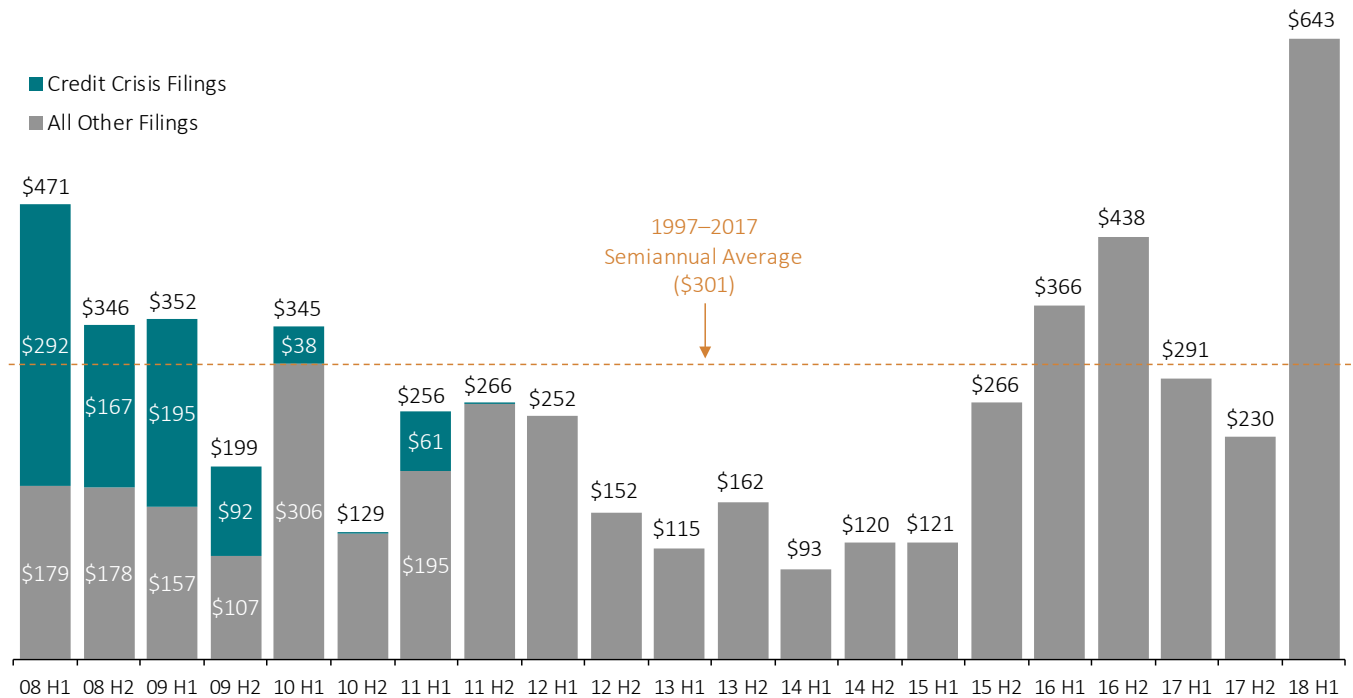
- The MDL Index of \$643 billion in the first half of 2018 increased 180 percent from \$230 billion in the second half of 2017. See Appendix 1.

- MDL in the first half of the year was more than double the 1997–2017 semiannual historical average of \$301 billion.
- Average MDL per filing rose 115 percent from the second half of 2017 and was 70 percent above the historical average.
- Median MDL per filing was 16 percent higher than the second half of 2017 and 55 percent above the historical average.

MDL rose to the highest semiannual level since the second half of 2002.

Figure 6: Maximum Dollar Loss Index® (MDL Index®) 2008 H1–2018 H1

(Dollars in Billions)



Mega Filings: Distribution of DDL Values

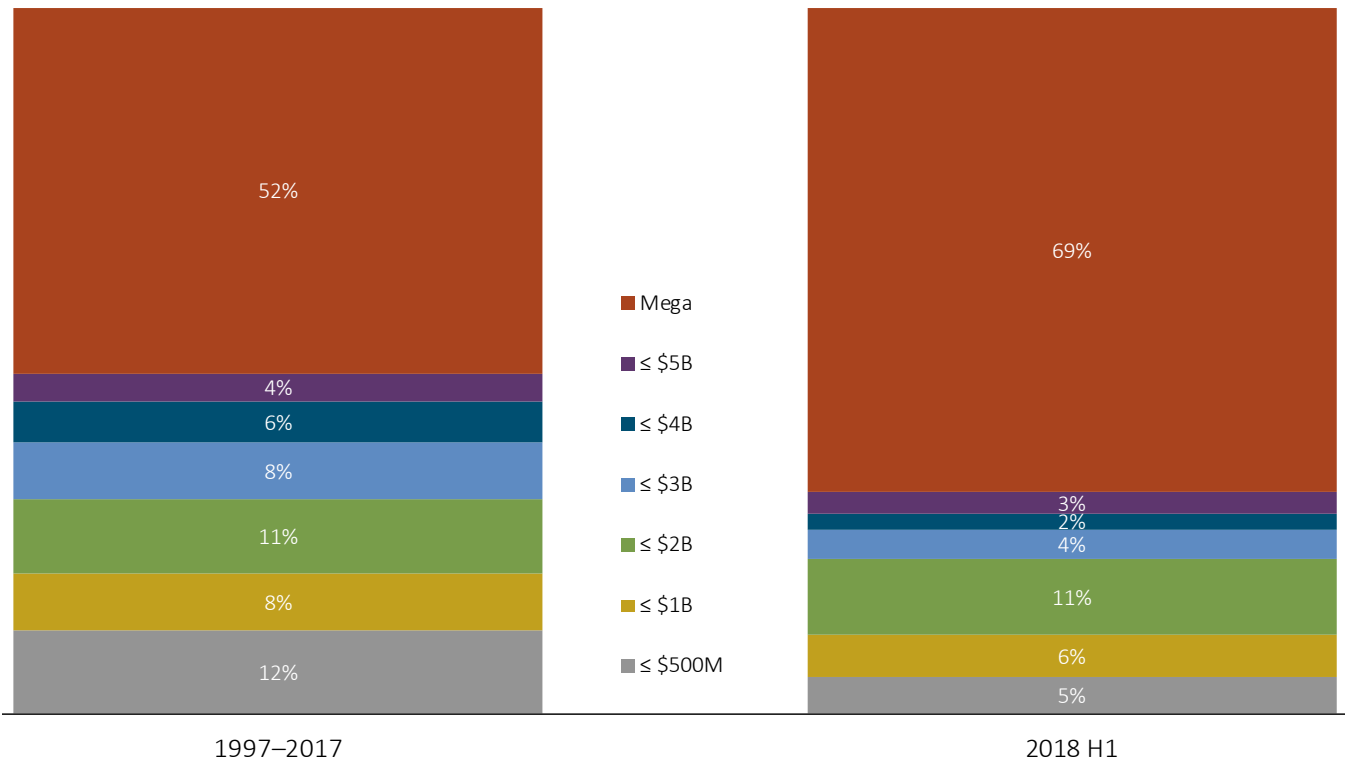
Mega DDL filings have a disclosure dollar loss of at least \$5 billion. Mega MDL filings have a maximum dollar loss of at least \$10 billion.

- Historically, mega DDL filings have accounted for 4 percent of total filings and 52 percent of total DDL.
- In the first half of 2018, there were nine mega DDL filings, more than three times the semiannual historical average.
- Mega DDL filings represented 69 percent of total DDL, up from 36 percent in 2017.

- Filings with disclosure dollar losses less than or equal to \$2 billion accounted for 22 percent of total DDL, a 50 percent decline from 2017 and 29 percent below the historical average.

The share of DDL attributable to mega filings was substantially above historical levels.

Figure 7: Distribution of DDL by Filing Size 1997–2018 H1



Note:

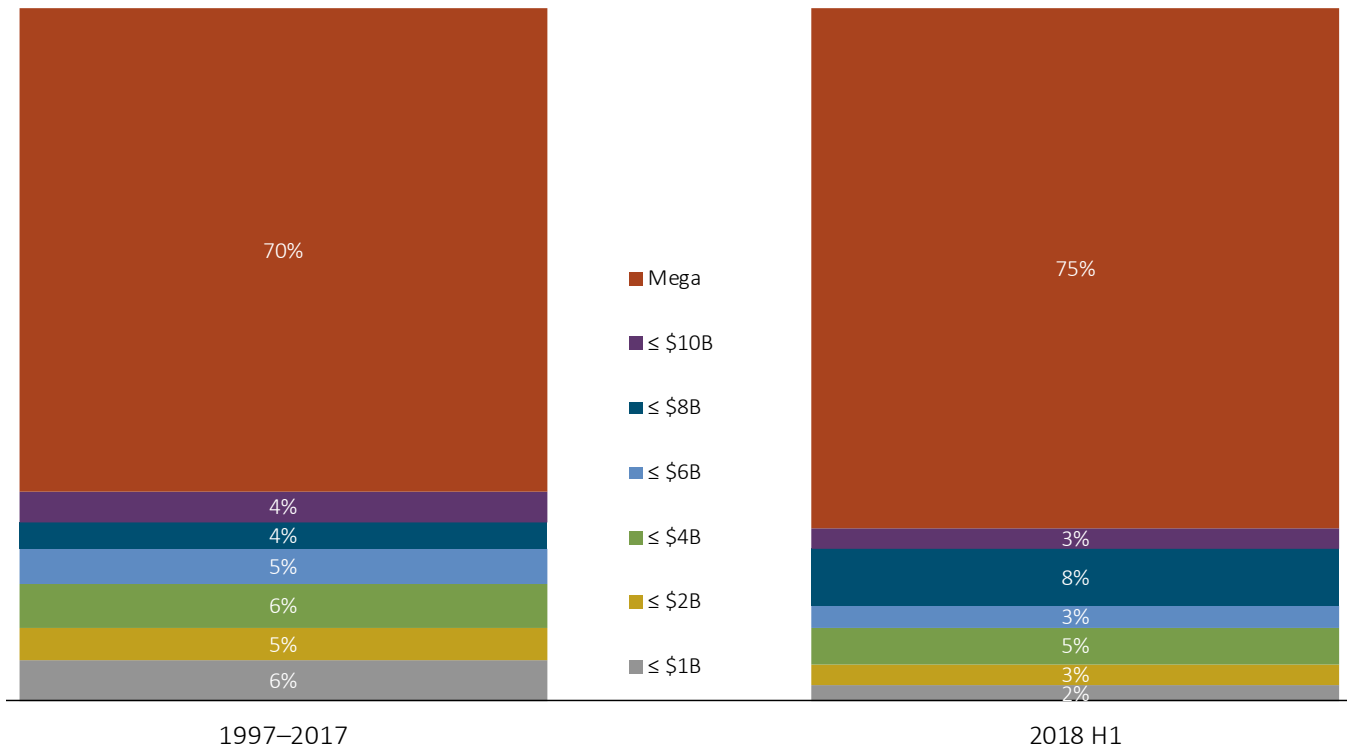
- Mega DDL filings have a disclosure dollar loss of at least \$5 billion.
- Percentages may not sum to 100 due to rounding.

Mega Filings: Distribution of MDL Values

- There were 11 mega MDL filings in the first half of 2018 compared to the 1997–2017 semiannual historical average of six.
- Mega MDL filings were 75 percent of total MDL, above the historical average of 70 percent and distinctly greater than 2017 when mega filings were 49 percent of total MDL.
- As with DDL, the proportion of total MDL attributable to filings with relatively smaller maximum dollar losses decreased in the first half of 2018. All ranges—except for filings with maximum dollar losses between \$6 billion and \$8 billion—represented a smaller share of total MDL relative to their historical averages.

Mega MDL filings accounted for 75 percent of total MDL, surpassing the historical level.

Figure 8: Distribution of MDL by Filing Size
1997–2018 H1



Note:

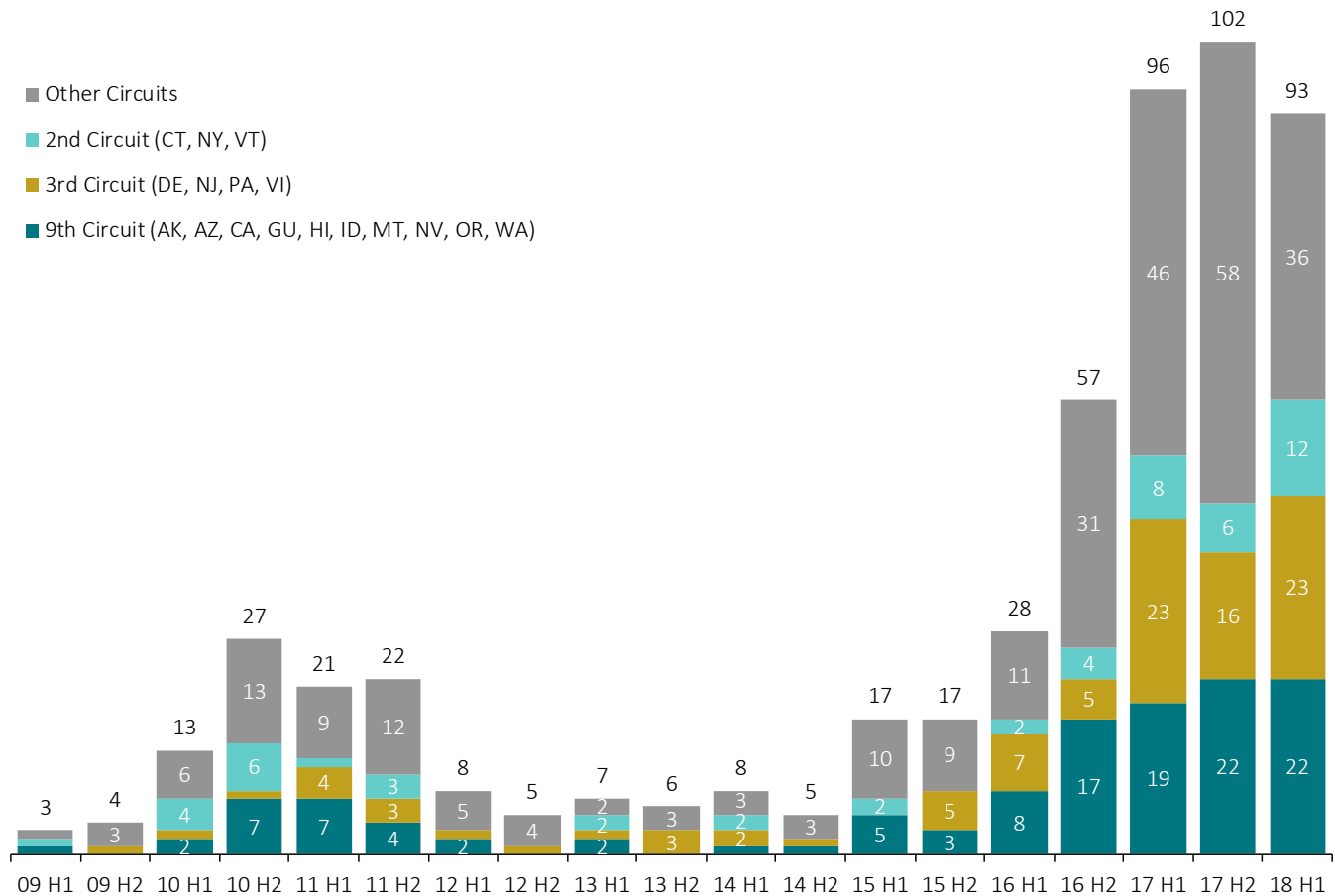
1. Mega MDL filings have a maximum dollar loss of at least \$10 billion.
2. Percentages may not sum to 100 due to rounding.

M&A Filings by Circuit

- There were 93 federal M&A filings in the first half of 2018.
- Filings in the Third and Ninth Circuits accounted for 48 percent of all M&A filings. The Second and Third Circuits' shares increased, even though the total number of M&A filings was down from the 2017 peak.
- While remaining at lower levels than in either the Third or Ninth Circuits, M&A filing activity in the Second Circuit picked up notably.
- For additional analysis of M&A filings and related litigation, see *Shareholder Litigation Involving Acquisitions of Public Companies—Review of 2017 M&A Litigation*.

M&A filings continued to be concentrated in the Third and Ninth Circuits.

Figure 9: M&A Filings by Circuit
2009 H1–2018 H1



Note:

1. In January 2016, the Delaware Court of Chancery rejected a disclosure-only settlement in Zillow's acquisition of Trulia. Since the ruling, merger objection litigation has shifted to federal court. See Cornerstone Research, *Shareholder Litigation Involving Acquisitions of Public Companies—Review of 2017 M&A Litigation*. See also <http://courts.delaware.gov/opinions/download.aspx?ID=235370>.
2. The Securities Class Action Clearinghouse began tracking federal M&A filings in 2009.

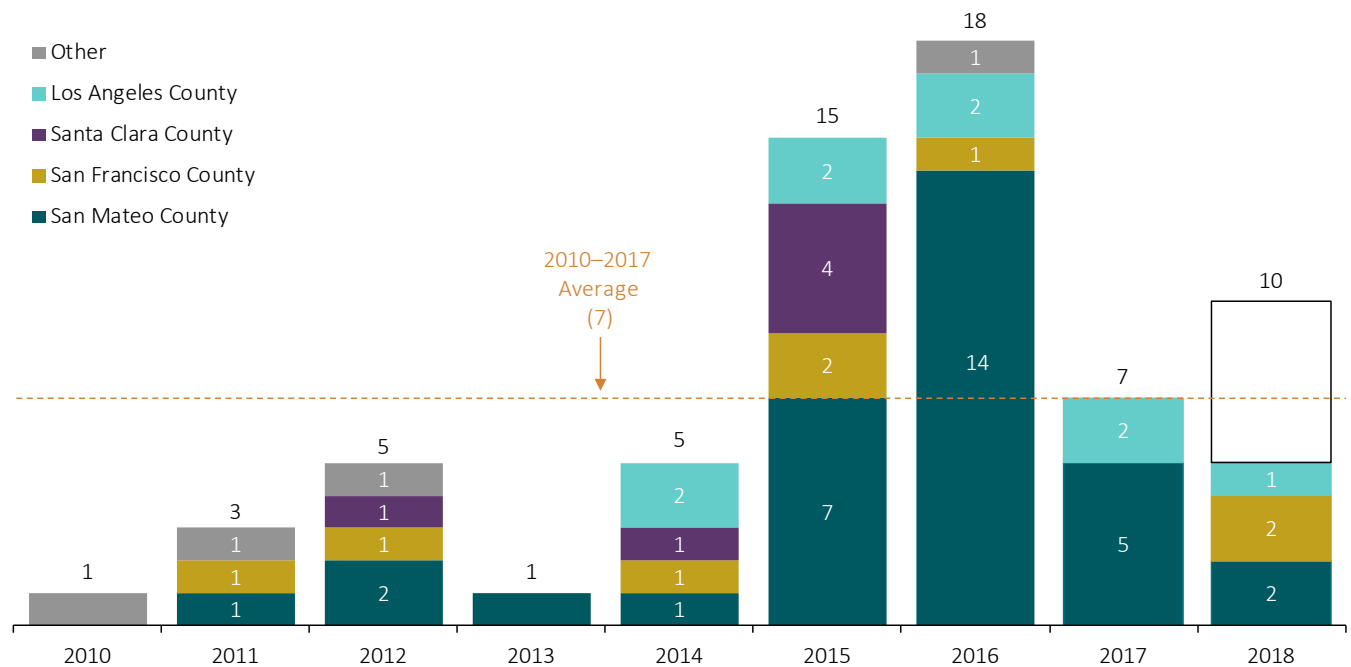
Section 11 and Section 12 Cases Filed in California State Courts

In *Cyan Inc. v. Beaver County Employees Retirement Fund*, the U.S. Supreme Court ruled in March 2018 that 1933 Act claims may be brought to state venues and are not removable to federal court. The issue had been teed up for the Court in prior years as plaintiffs brought Section 11 claims in California state courts.

- In the first half of 2018, five class actions alleging violations of Section 11 and/or Section 12 were filed in California state courts.
- Two of these class actions are related to ICOs and/or cryptocurrencies.
- San Mateo County and San Francisco County each had two filings.

California state Section 11 and Section 12 filings are on pace to increase in 2018 after declining in 2017.

Figure 10: California State Section 11 and Section 12 Filings by County 2010–2018 H1



Note:

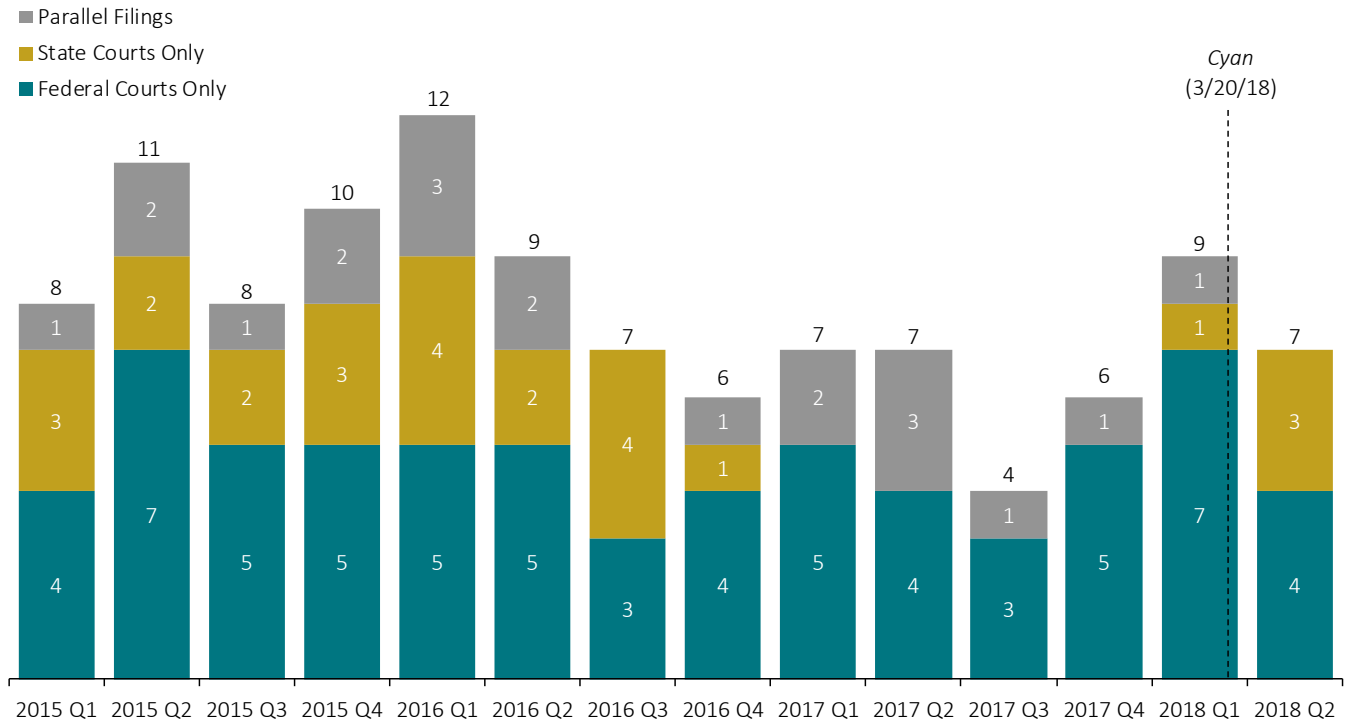
1. "Other" includes filings in Alameda, Kern, Orange, and San Diego Counties. See Appendix 3.
2. Filings in 2010 through 2017 include Section 11 claims and may also include Section 12 and Section 15 claims, but do not include allegations of Rule 10b-5 violations. In 2018, the Securities Class Action Clearinghouse began tracking 1933 Act filings in California state courts with Section 11 or Section 12 claims.

Comparison of 1933 Act Federal Filings with California State Filings: Pre- and Post-Cyan

- *Cyan* confirmed that state courts may adjudicate 1933 Act claims, which could signal a shift in the jurisdiction in which these claims are predominantly filed. In the second quarter of 2018, however, no pattern was yet evident.
- There were seven new 1933 Act filings in the second quarter of 2018: four Section 11 filings in federal court and three Section 12 filings in California state court.

Of the seven post-Cyan filings with Section 11 and/or Section 12 claims, only three were filed solely in California state court.

Figure 11: Pre- and Post-Cyan Federal Section 11 and California State Section 11 and Section 12 Filings 2015 Q1–2018 Q2



Note:

1. The federal Section 11 filings displayed may include Rule 10b-5 claims, but California state Section 11 filings will not.
2. Section 11 filings in federal courts may include parallel cases filed in California state courts. When parallel cases are filed in different years, the earlier filing is counted. For this reason, counts may not reconcile with other figures showing annual counts of California state Section 11 filings.
3. In 2018, the Securities Class Action Clearinghouse began tracking 1933 Act filings in California state courts containing Section 11 or Section 12 claims.

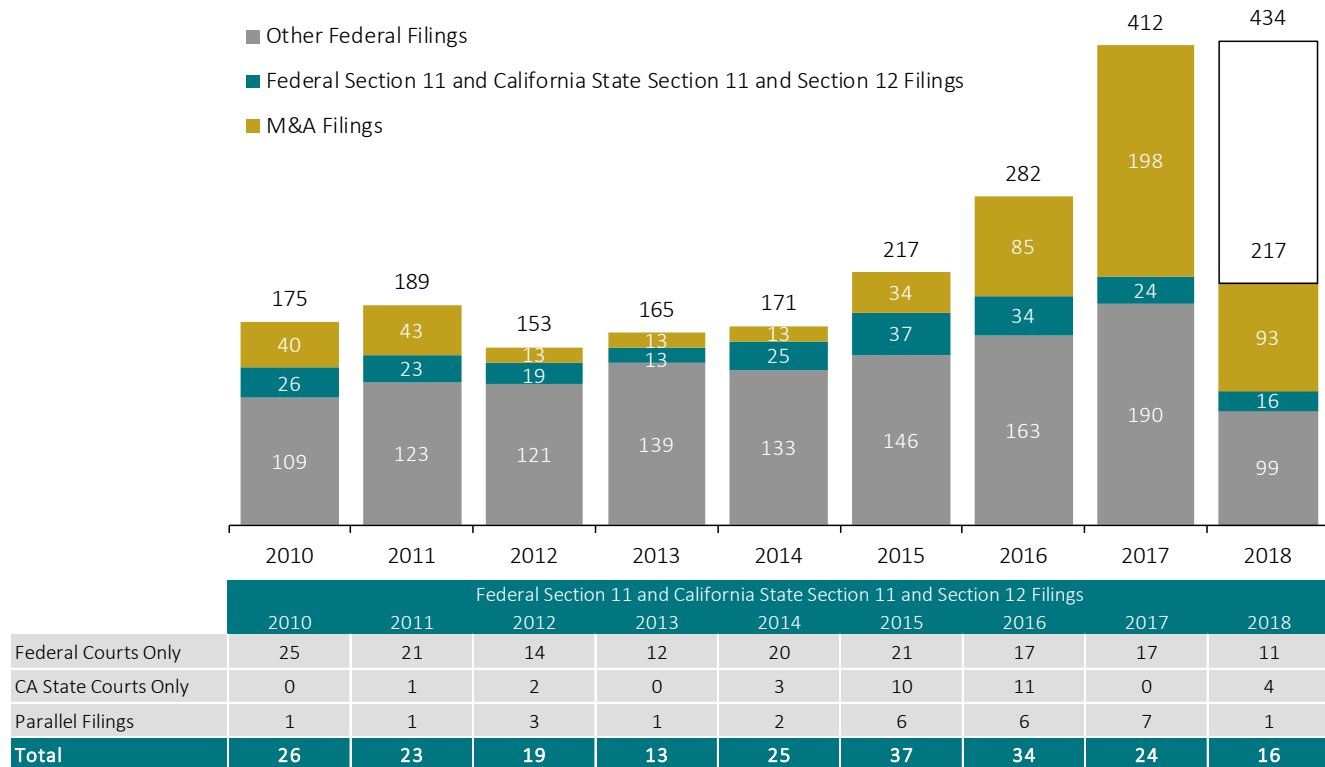
Combined 1933 Act Federal Filings and California State Filings

This analysis highlights federal Section 11 claims, California state Section 11 and Section 12 claims, and the extent to which parallel actions have been filed.

Overall, federal Section 11 filing activity in 2018 is on pace with 2017.

- There were 16 combined federal and California state filings in the first half of 2018.
- Only one California state Section 11 and Section 12 filing had a parallel federal Section 11 filing.
- In the first half of 2018, of the five California state filings, only one had Section 11 claims.

Figure 12: Federal Section 11 and California State Section 11 and Section 12 Filings 2010–2018 H1



Note:

1. Federal Section 11 filings may include Rule 10b-5 claims, but California state Section 11 filings do not.
2. Section 11 filings in federal courts may include parallel cases filed in California state courts. When parallel cases are filed in different years, the earlier filing is counted. For this reason, counts may not reconcile with other figures showing annual counts of California state Section 11 filings.
3. In 2018, the Securities Class Action Clearinghouse began tracking 1933 Act filings in California state courts containing Section 11 or Section 12 claims.

U.S. Exchange-Listed Companies

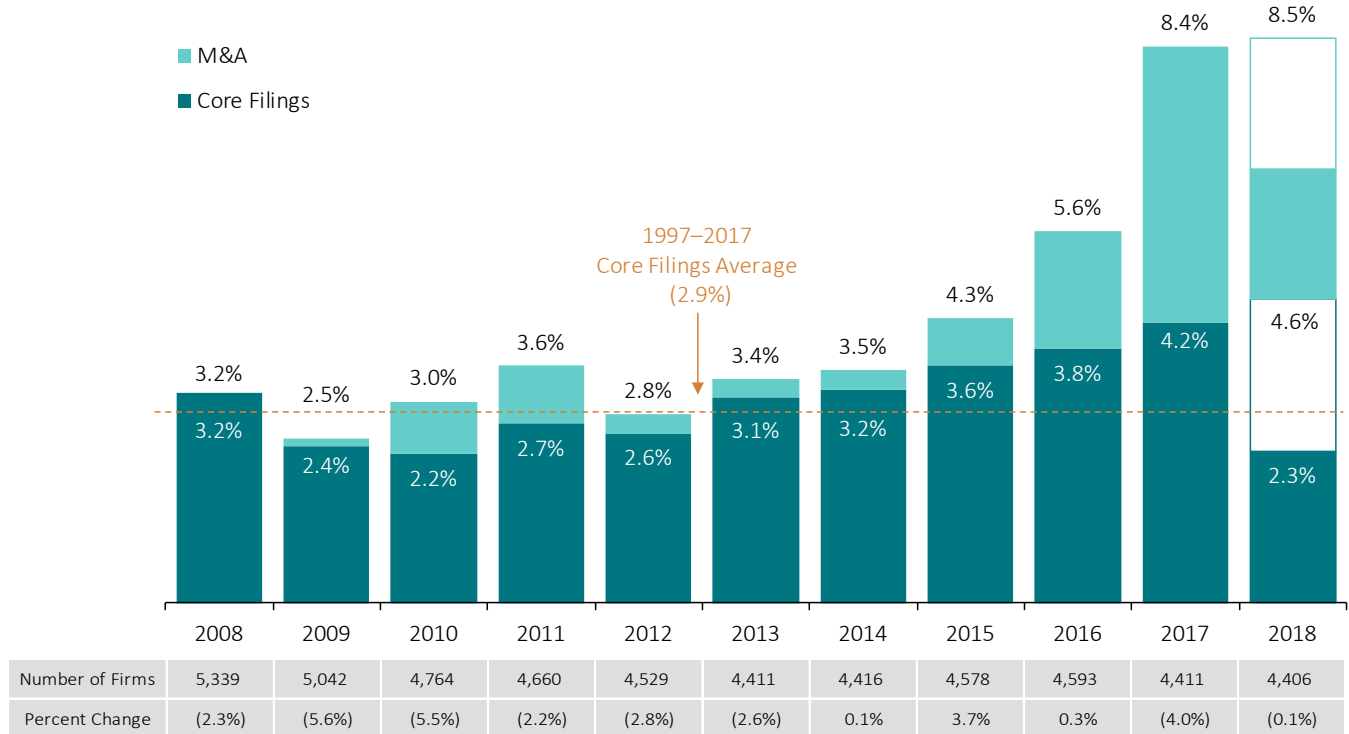
The percentages in the figure below are calculated as the unique number of companies listed on the NYSE or NASDAQ that were subject to federal securities fraud class actions in a given year divided by the unique number of companies listed on the NYSE or NASDAQ.

- Annualizing data from the first half of 2018, 8.5 percent of companies listed on major U.S. exchanges may become subject to a filing this year. This rate is significantly above the historical average and slightly above the annual 2017 rate of 8.4 percent.

- At the current rate, 2018 will be the sixth consecutive year in which the likelihood of a company being the subject of a class action increases.

If the number of filings in the second half of 2018 equals the first half, the percentage of firms sued will exceed any year since the PSLRA was enacted.

Figure 13: Percentage of U.S. Exchange-Listed Companies Subject to Filings 2008–2018 H1



Source: Center for Research in Security Prices (CRSP)

Note:

- Percentages are calculated by dividing the count of issuers listed on the NYSE or NASDAQ subject to filings by the number of companies listed on the NYSE or NASDAQ as of the beginning of the year.
- Assumes that the percentage of unique listed issuers subject to filings for the second half of 2018 will equal the first half in each category.
- Listed companies were identified by taking the count of listed securities at the beginning of each year and accounting for cross-listed companies or companies with more than one security traded on a given exchange. Securities were counted if they were classified as common stock or American Depository Receipts (ADRs) and listed on the NYSE or NASDAQ.

Non-U.S. Filings

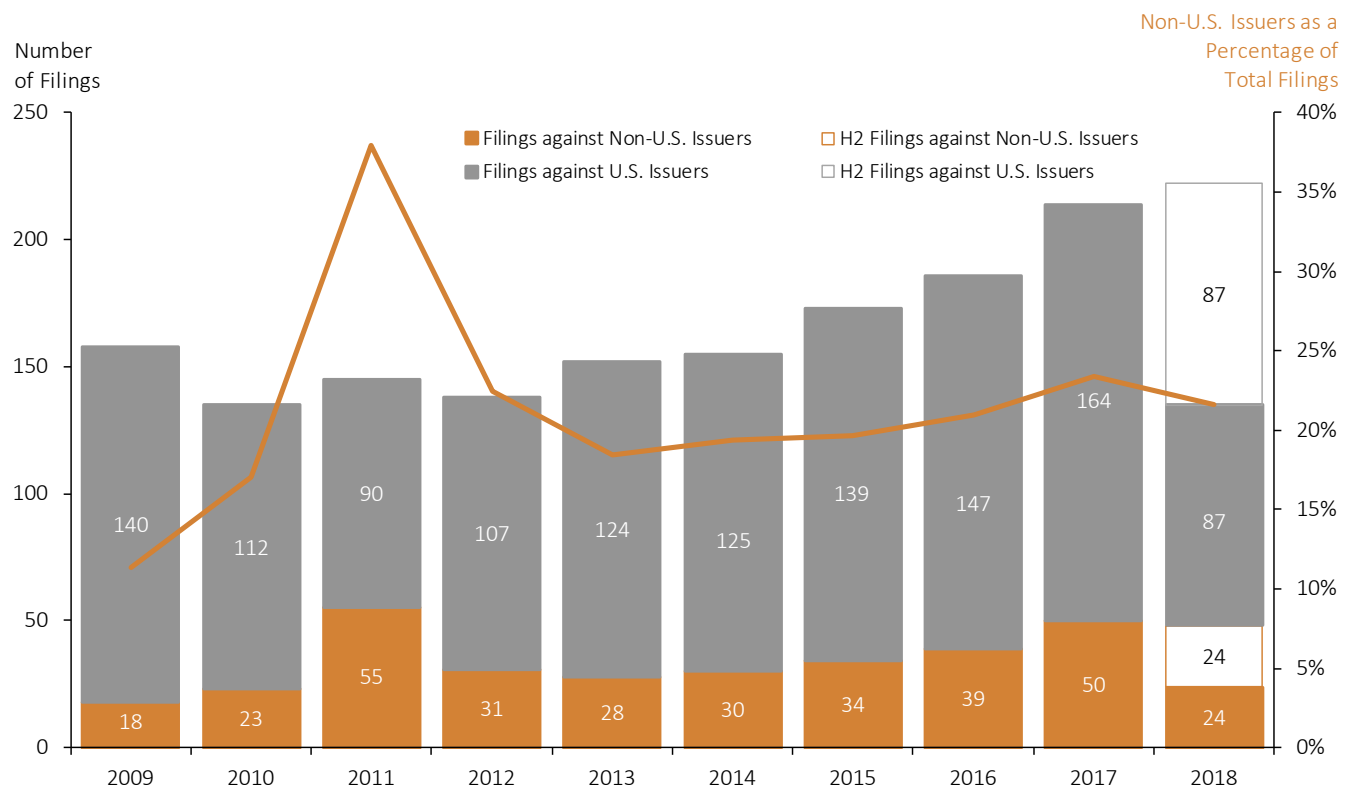
This index tracks the number of core filings against non-U.S. issuers, defined as companies headquartered outside the United States, as a percentage of total core filings.

- Core filings against non-U.S. issuers in the first half of 2018 were slightly below 2017 levels, representing 22 percent of all core filings, compared to 23 percent in 2017.
- Over the last 20 years, and taking into account some year-to-year variation, core filings against non-U.S. issuers have trended upward.

- Since declining from the wave of Chinese reverse merger filings in 2011, the percentage of core filings against non-U.S. issuers steadily increased between 2013 and 2017, before falling slightly in the first half of 2018.

Filings against non-U.S. issuers edged lower in the first half of 2018, after increasing in every year since 2013.

Figure 14: Annual Number of Class Action Filings by Location of Headquarters—Core Filings 2009–2018 H1

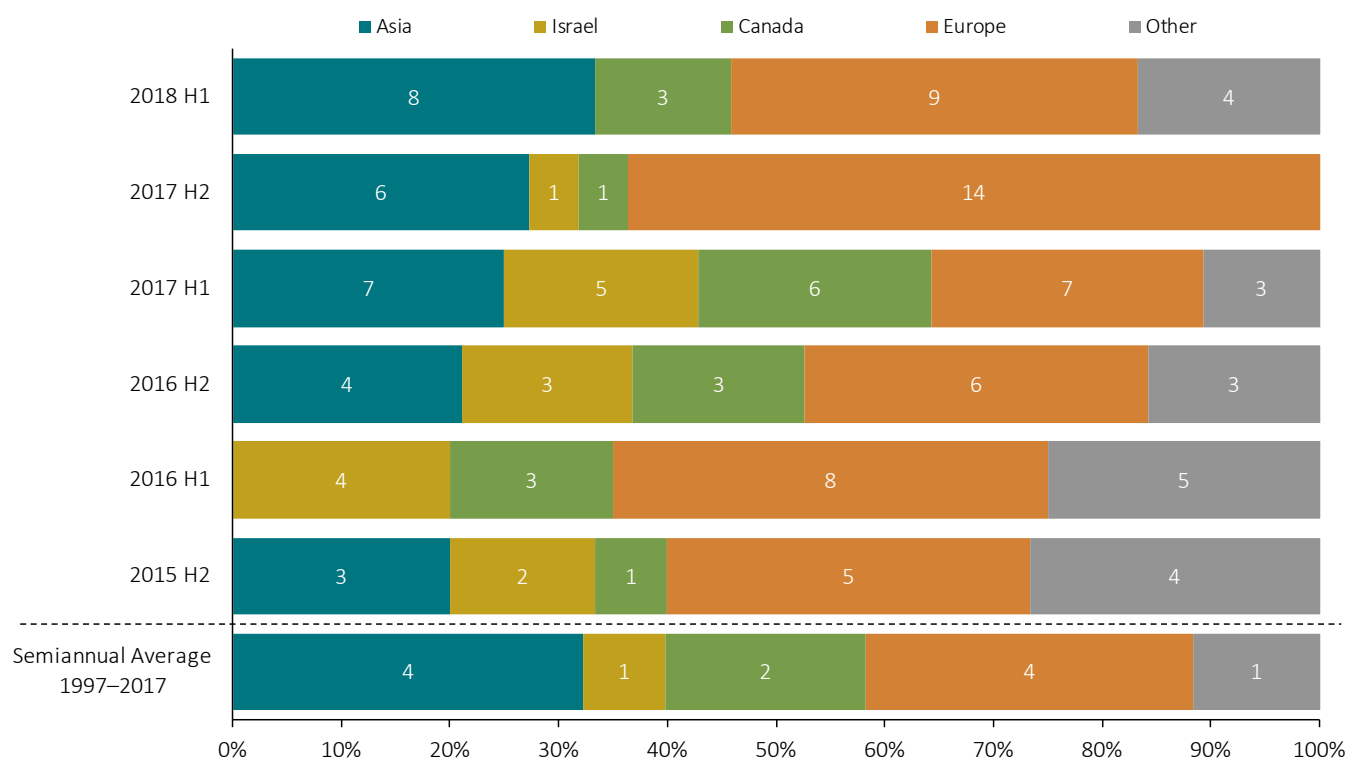


Note: Assumes the number of core filings in the second half of 2018 will equal the number in the first half.

- There were eight core filings against Asian firms in the first half of 2018, the highest number of such filings since the first half of 2015. Three of the eight filings involved Singaporean firms.
- Core filings against European firms remained at levels above the historical average, despite a 36 percent decline from the record 14 core filings in the second half of 2017.
- For the first time since the first half of 2015, there were no core filings against Israeli firms.
- In descending order of frequency, other non-U.S. core filings included class actions against companies headquartered in Mexico, the Republic of South Africa, and Brazil.

Core filings against European firms remained well above the historical average.

Figure 15: Non-U.S. Filings by Location of Headquarters—Core Filings 1997–2018 H1



Status of Securities Class Action Filings

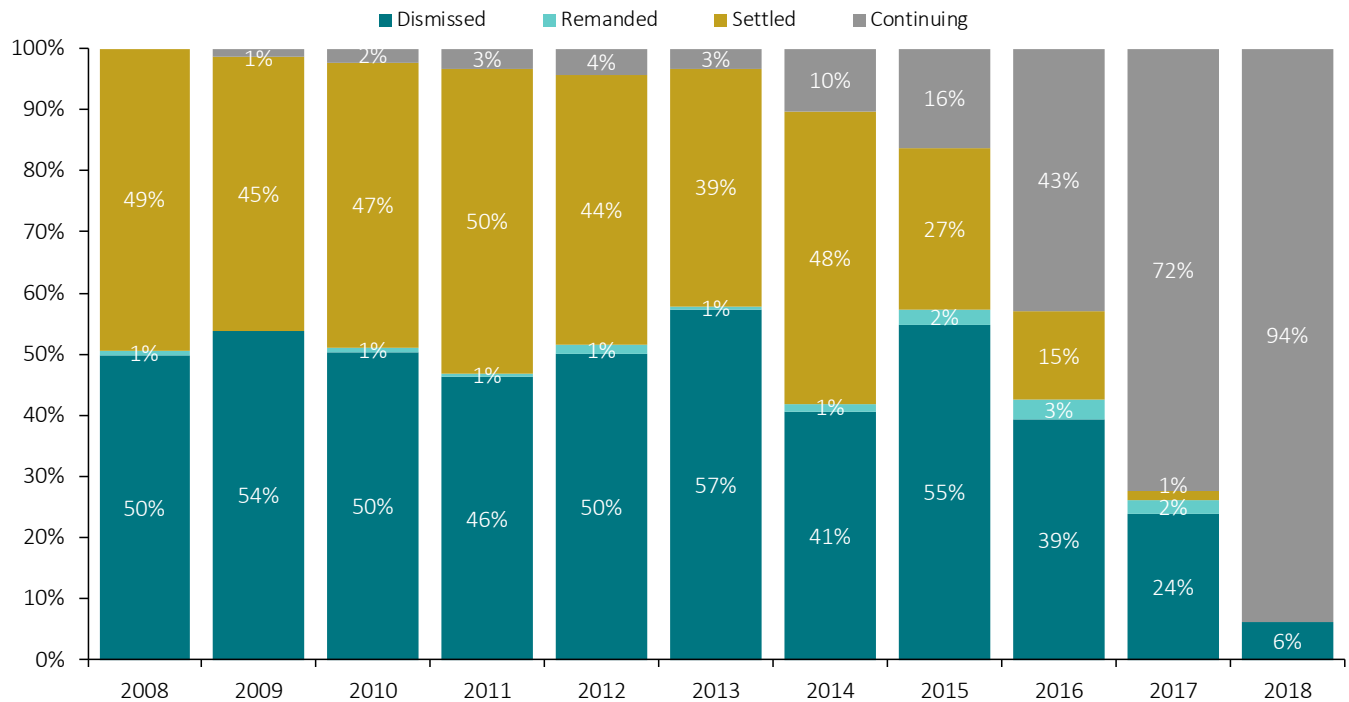
This analysis compares filing groups to determine whether filing outcomes have changed over time. As each cohort ages, a larger percentage of filings are resolved—either through dismissal, settlement, or trial outcomes.

A category has been added to this analysis to cover filings dismissed from federal courts that were remanded to state courts.

- For filings from 1997 to 2017, 49 percent of core filings have settled, 42 percent have been dismissed, 8 percent are ongoing, and 1 percent have been remanded to state courts. Less than 1 percent of core filings since 1997 have reached a trial verdict.
- The dismissal rates for core filings in 2017 have increased approximately 41 percent relative to filings in 2016 at midyear 2017.

Dismissal rates for the 2015 and 2016 cohort groups have increased, after declining for the 2014 cohort group.

Figure 16: Status of Filings by Year—Core Filings 2008–2018 H1



Note: Percentages may not sum to 100 due to rounding.

Filing Lag

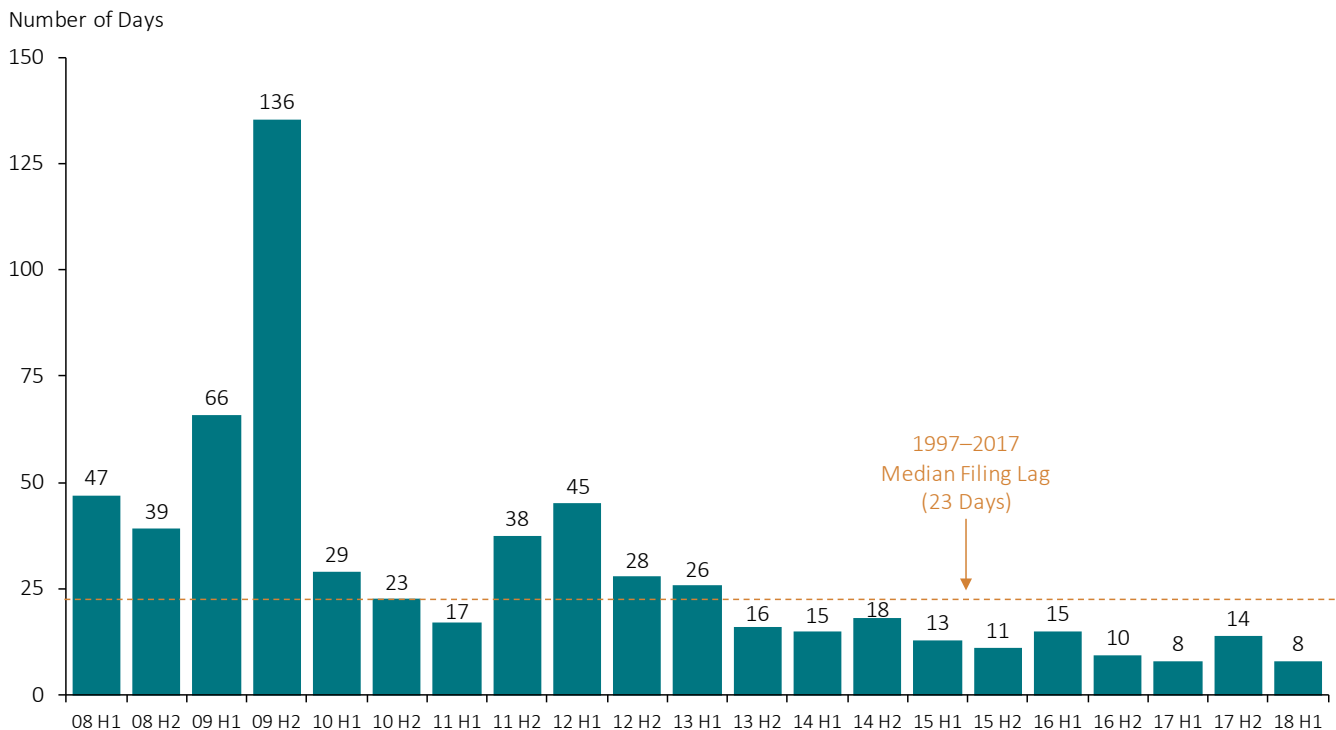
This analysis reviews the number of days between the end of the class period and the filing date of the securities class action.

- The median lag for core filings was eight days in the first six months of 2018. This number is the same as the median filing lag from the first half of 2017, which is the shortest since 1997.
- Overall, the median filing lag has been steadily declining since the first half of 2012.

- In the first half of 2018, 56 percent of core filings were filed within 10 days of the end of the class period. This was the second-largest percentage since 1997 and a slight drop from the peak of 57 percent in the first half of 2017.
- Nine percent of all core filings were filed more than 180 days after the end of the class period, the lowest percentage since the first half of 2014, and the second lowest since the enactment of the PSLRA.

Half of the core filings in the first six months of 2018 were filed within eight days of the end of the class period.

Figure 17: Semiannual Median Lag between Class Period End Date and Filing Date—Core Filings 2008 H1–2018 H1



Heat Maps: S&P 500 Securities Litigation™

The Heat Maps show securities class action activity by industry sector for companies in the S&P 500 index. Starting with the composition of the S&P 500 at the beginning of each year, the Heat Maps address two questions for each sector:

- (1) What percentage of companies were subject to new core securities class actions in federal court during each calendar year?
- (2) What percentage of the total market capitalization was subject to new core securities class actions in federal court during each calendar year?

- On an annualized basis, 9.6 percent of S&P 500 companies were defendants in a core securities class action in the first half of 2018.
- On average each year from 2001 through 2017, one in about 19 S&P 500 companies, or approximately 5.2 percent, was the subject of a core filing.

As of the first half of 2018, core filings against S&P 500 companies were at the highest annualized rate since 2002.

Figure 18: Percentage of S&P 500 Companies Subject to New Core Filings 2001–2018 H1

	Average 2001–2017	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Annualized)
Consumer Discretionary	5.0%	3.8%	5.1%	3.8%	4.9%	8.4%	1.2%	0.0%	3.6%	8.5%	12.5%
Consumer Staples	2.9%	4.9%	0.0%	2.4%	2.4%	0.0%	0.0%	5.0%	2.6%	2.7%	0.0%
Energy/Materials	1.5%	1.5%	4.3%	0.0%	2.7%	0.0%	1.3%	0.0%	4.5%	3.3%	3.5%
Financials/Real Estate	8.1%	10.7%	10.3%	1.2%	3.7%	0.0%	1.2%	1.2%	6.9%	3.3%	8.0%
Health Care	8.3%	3.7%	13.5%	2.0%	1.9%	5.7%	0.0%	1.9%	17.9%	8.3%	16.1%
Industrials	3.5%	6.9%	0.0%	1.7%	1.6%	0.0%	4.7%	0.0%	6.1%	8.7%	8.8%
Telecommunications/Information Technology	6.0%	1.2%	2.4%	7.1%	3.8%	9.1%	0.0%	4.2%	6.8%	8.5%	14.1%
Utilities	5.2%	0.0%	0.0%	2.9%	0.0%	0.0%	0.0%	3.4%	3.4%	7.1%	7.1%
All S&P 500 Companies	5.2%	4.4%	4.8%	2.8%	3.0%	3.4%	1.2%	1.6%	6.6%	6.4%	9.6%

0%
 0–5%
 5–15%
 15–25%
 25%+

Note:

1. The Heat Map is based on the composition of the S&P 500 as of the last trading day of the previous year.
2. Sectors are based on the Global Industry Classification Standard (GICS).
3. Percentage of S&P 500 Companies Subject to New Core Filings equals the number of companies subject to new core securities class action filings in federal court in each sector divided by the total number of companies in that sector. See Appendix 4A.

- On an annualized basis, 17.3 percent of the S&P 500 market capitalization in the first half of 2018 was subject to new core filings. This is the highest annualized percentage of any year since 2004.

The Health Care sector of the S&P 500 was the most common target, as measured by market capitalization.

- Financials/Real Estate, Health Care, and Telecommunications/Information Technology had at least 18 percent of their market capitalization subject to new core filings (on an annualized basis).
- The percentage of market capitalization in the Health Care sector subject to core filing litigation reached 35.5 percent (on an annualized basis), the highest percentage of any year between 2001 and 2018.
- In keeping with historical trends, S&P 500 companies subject to core filings are typically larger companies. The proportion of S&P 500 market capitalization subject to litigation in the first half of 2018 exceeded the proportion of S&P 500 companies subject to litigation.

Figure 19: Percentage of S&P 500 Market Capitalization Subject to New Core Filings 2001–2018 H1

	Average 2001–2017	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Annualized)
Consumer Discretionary	5.3%	1.9%	4.9%	4.6%	1.6%	4.4%	2.5%	0.0%	2.8%	8.2%	3.9%
Consumer Staples	3.1%	3.9%	0.0%	0.8%	14.0%	0.0%	0.0%	1.9%	1.0%	6.7%	0.0%
Energy/Materials	3.0%	0.8%	5.2%	0.0%	0.9%	0.0%	0.2%	0.0%	19.8%	2.3%	2.8%
Financials/Real Estate	15.5%	31.2%	31.1%	6.9%	11.0%	0.0%	0.3%	3.0%	11.9%	1.5%	18.5%
Health Care	11.4%	1.7%	32.7%	0.7%	0.8%	4.4%	0.0%	3.1%	13.2%	2.7%	35.5%
Industrials	7.2%	23.2%	0.0%	2.1%	1.2%	0.0%	1.7%	0.0%	8.7%	22.3%	13.6%
Telecommunications/Information Technology	8.2%	0.3%	5.9%	13.4%	2.2%	16.6%	0.0%	7.0%	12.3%	4.4%	27.2%
Utilities	5.9%	0.0%	0.0%	0.6%	0.0%	0.0%	0.0%	3.7%	4.4%	9.6%	6.9%
All S&P 500 Companies	8.2%	7.7%	11.1%	5.0%	4.3%	4.7%	0.6%	2.8%	10.0%	6.1%	17.3%

0% 0–5% 5–15% 15–25% 25%+

Note:

- The Heat Map is based on the market capitalizations of the S&P 500 companies as of the last trading day of the previous year. If the market capitalization on the last trading day is not available, the average fourth-quarter market capitalization is used.
- Sectors are based on the Global Industry Classification Standard (GICS).
- Percentage of S&P 500 Market Capitalization Subject to New Core Filings equals the total market capitalization of companies subject to new core securities class action filings in federal court in each sector divided by the total market capitalization of all companies in that sector. See Appendix 4B.

Industry

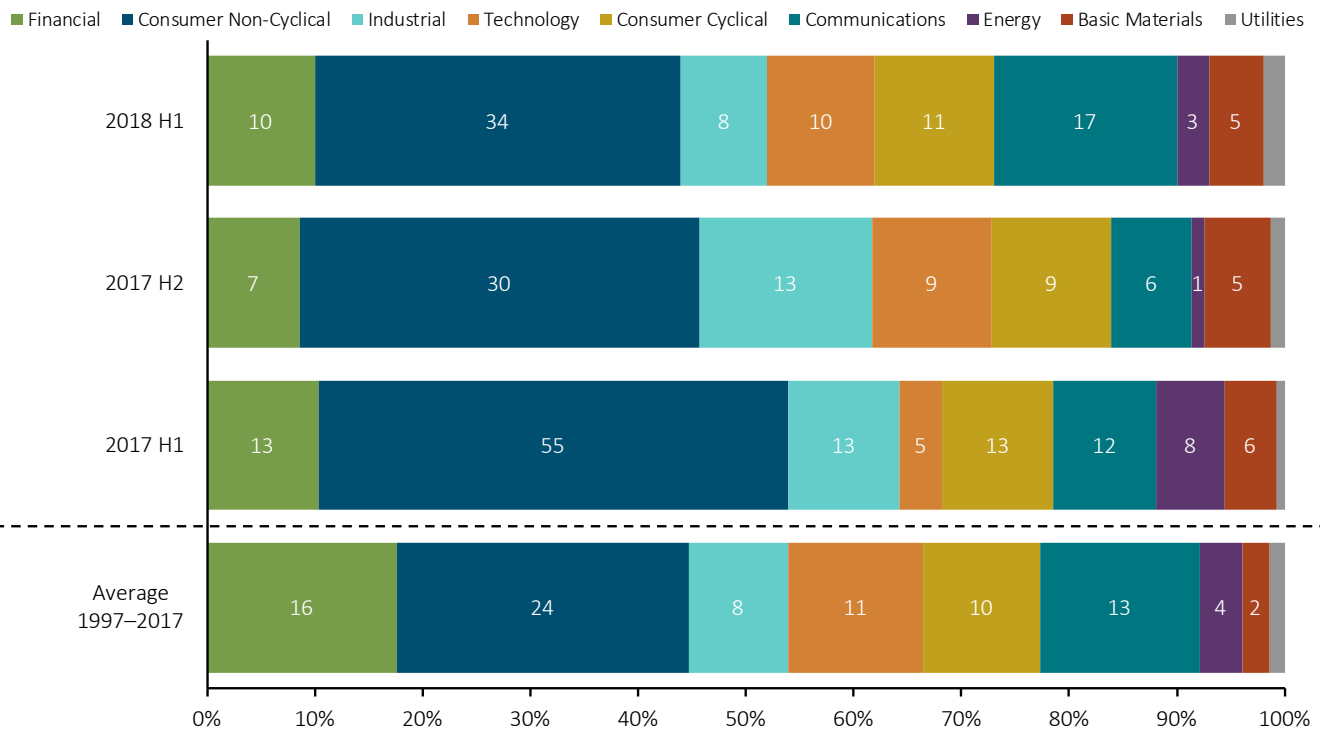
This analysis encompasses both the large capitalization companies of the S&P 500 and smaller companies.

- Industrial core filings decreased to eight in the first half of 2018, down from 13 in each of the first and second halves of 2017.
- There were 34 core filings in the Consumer Non-Cyclical sector—21 fewer than the first half of 2017, but four more than the second half of 2017.
- The Consumer Non-Cyclical sector has had the most core filings for the past 14 semiannual periods.

- Core filings in the Communications sector rose from six in the second half of 2017 to 17 in the first half of 2018. The increase was driven by nine core filings against Internet companies.

Core filings involving the Communications sector were the second most prevalent, surpassing the Industrial sector.

Figure 20: Filings by Industry—Core Filings 1997–2018 H1



Note:

1. This analysis excludes two filings in unknown sectors in 2013, two filings in unknown sectors in 2014, two filings in unknown sectors in 2015, six filings in unknown sectors in 2016, seven filings in unknown sectors in 2017, and 11 filings in unknown sectors in 2018. Filings with missing sector information or infrequently used sectors may have been excluded in prior years. For more information, see Appendix 2.
2. Sectors are based on the Bloomberg Industry Classification System.

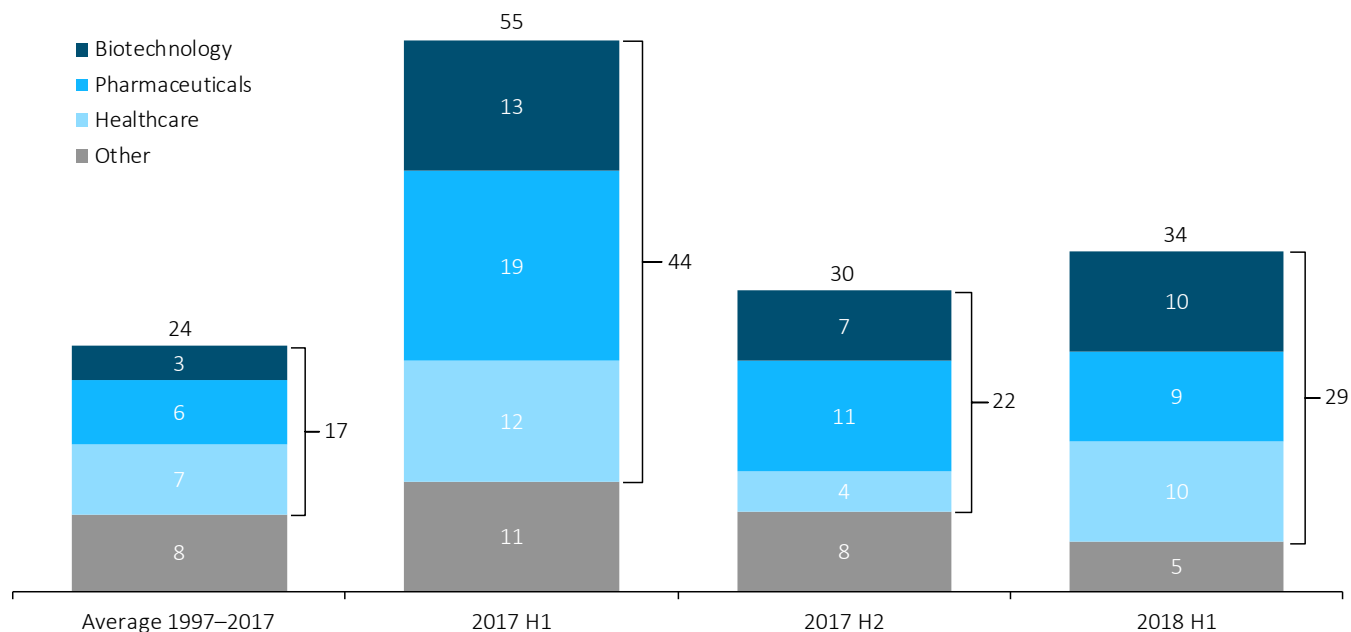
Consumer Non-Cyclical Sector

- Core filings involving biotechnology, pharmaceuticals, and healthcare companies totaled 29 in the first half of 2018.

Biotechnology and Healthcare were the most commonly targeted subsectors.

- The number of Consumer Non-Cyclical core filings in the first half of 2018 is 13 percent greater than the second half of 2017, and 42 percent above the historical average.
- Core filings in the first half of 2018 were 38 percent lower than the peak in the first half of 2017.

Figure 21: Consumer Non-Cyclical Sector—Core Filings 1997–2018 H1



Note:

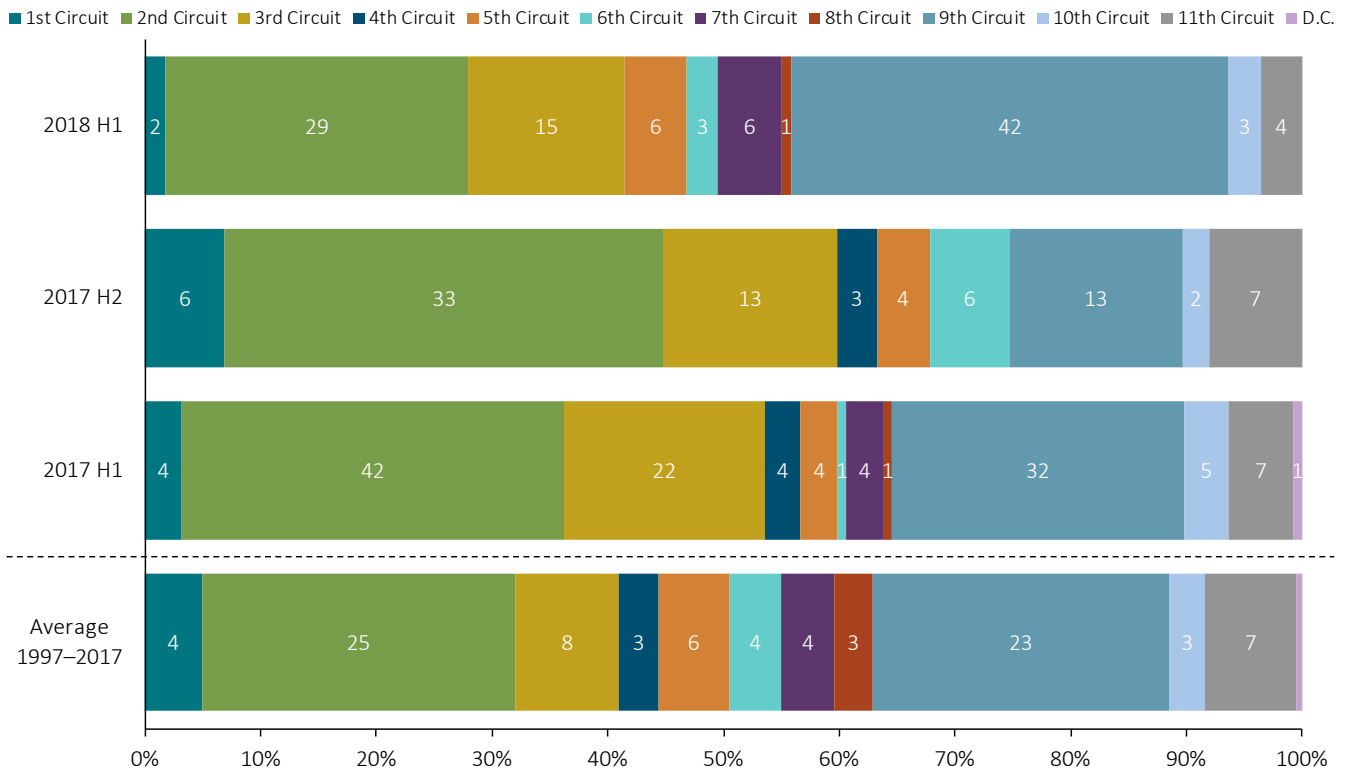
- Sectors and subsectors are based on the Bloomberg Industry Classification System.
- “Other” primarily includes Agriculture, Beverage, Commercial Services, and Food subsectors.
- Numbers may not sum due to rounding.

Circuit

- There were 42 core filings in the Ninth Circuit in the first half of 2018, more than triple the number in the second half of 2017. Core filing activity was 83 percent greater than the historical average of 23 core filings. See Appendix 5.
- In the Second and Eleventh Circuits, the number of core filings decreased substantially, compared to the first and second halves of 2017.
- The increase in Ninth Circuit core filing activity was primarily due to class actions filed in the Northern District of California and secondarily to increased activity in the Central District of California. See Appendix 6.

Ninth Circuit activity increased significantly, surpassing the Second Circuit in the number of core filings.

Figure 22: Filings by Circuit—Core Filings
1997–2018 H1



Glossary

California state Section 11 and Section 12 filing is a class action filed in a California state court that has Section 11 claims or, starting in 2018, either Section 11 or Section 12 claims. These filings may also have Section 12 and/or Section 15 claims, but do not have Rule 10b-5 claims.

Chinese reverse merger (CRM) filing is a securities class action against a China-headquartered company listed on a U.S. exchange as a result of a reverse merger with a public shell company. See Cornerstone Research, *Investigations and Litigation Related to Chinese Reverse Merger Companies*.

Class Action Filings Index® (CAF Index®) tracks the number of federal securities class action filings.

Class Action Filings Non-U.S. Index tracks the number of filings against non-U.S. issuers (companies headquartered outside the United States) relative to total filings.

Cohort is the group of securities class actions all filed in a particular calendar year.

Core filings are all federal securities class actions excluding those defined as M&A filings.

Disclosure Dollar Loss Index® (DDL Index®) measures the aggregate DDL for all filings over a period of time. DDL is the dollar value change in the defendant firm's market capitalization between the trading day immediately preceding the end of the class period and the trading day immediately following the end of the class period. DDL should not be considered an indicator of liability or a measure of potential damages. Instead, it estimates the impact of all information revealed at the end of the class period, including information unrelated to the litigation.

Filing lag is the number of days between the end of a class period and the filing date of the securities class action.

First identified complaint (FIC) is the first complaint filed of one or more securities class action complaints with the same underlying allegations filed against the same defendant or set of defendants.

Heat Maps of S&P 500 Securities Litigation™ analyze securities class action activity by industry sector. The analysis focuses on companies in the Standard & Poor's 500 (S&P 500) index, which comprises 500 large, publicly traded companies in all major sectors. Starting with the composition of the S&P 500 at the beginning of each year, the Heat Maps examine two questions for each sector: (1) What percentage of these companies were subject to new securities class

actions in federal court during each calendar year? (2) What percentage of the total market capitalization of these companies was subject to new securities class actions in federal courts during each calendar year?

Market capitalization losses measure changes to market values of the companies subject to class action filings. This report tracks market capitalization losses for defendant firms during and at the end of class periods. They are calculated for publicly traded common equity securities, closed-ended mutual funds, and exchange-traded funds where data are available. Declines in market capitalization may be driven by market, industry, and/or firm-specific factors. To the extent that the observed losses reflect factors unrelated to the allegations in class action complaints, indices based on class period losses would not be representative of potential defendant exposure in class actions. This is especially relevant in the post-*Dura* securities litigation environment. In April 2005, the U.S. Supreme Court ruled that plaintiffs in a securities class action are required to plead a causal connection between alleged wrongdoing and subsequent shareholder losses. This report tracks market capitalization losses at the end of each class period using DDL, and market capitalization losses during each class period using MDL.

Maximum Dollar Loss Index® (MDL Index®) measures the aggregate MDL for all filings over a period of time. MDL is the dollar value change in the defendant firm's market capitalization from the trading day with the highest market capitalization during the class period to the trading day immediately following the end of the class period. MDL should not be considered an indicator of liability or a measure of potential damages. Instead, it estimates the impact of all information revealed during or at the end of the class period, including information unrelated to the litigation.

Mega filings include mega DDL filings, securities class action filings with a DDL of at least \$5 billion; and mega MDL filings, securities class action filings with an MDL of at least \$10 billion.

Merger and acquisition (M&A) filings are securities class actions that have Section 14 claims, but no Rule 10b-5, Section 11, or Section 12(2) claims, and involve merger and acquisition transactions.

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, cosponsored by Cornerstone Research and Stanford Law School.

Appendices

Appendix 1: Filings Basic Metrics

Year	Class Action Filings	Disclosure Dollar Loss			Maximum Dollar Loss		
		DDL Total (\$ Billions)	Average (\$ Millions)	Median (\$ Millions)	MDL Total (\$ Billions)	Average (\$ Millions)	Median (\$ Millions)
1997 H2	95	\$30	\$354	\$73	\$93	\$1,077	\$411
1998 H1	115	\$36	\$347	\$42	\$88	\$851	\$269
1998 H2	127	\$45	\$381	\$72	\$136	\$1,164	\$337
1999 H1	126	\$63	\$568	\$99	\$146	\$1,325	\$339
1999 H2	83	\$78	\$1,048	\$129	\$218	\$2,949	\$453
2000 H1	111	\$164	\$1,708	\$92	\$331	\$3,452	\$444
2000 H2	105	\$76	\$793	\$143	\$429	\$4,469	\$975
2001 H1	103	\$137	\$1,473	\$98	\$990	\$10,642	\$990
2001 H2	77	\$61	\$872	\$69	\$497	\$7,097	\$657
2002 H1	109	\$81	\$776	\$117	\$926	\$8,899	\$1,402
2002 H2	115	\$120	\$1,212	\$184	\$1,121	\$11,320	\$1,547
2003 H1	105	\$48	\$493	\$92	\$335	\$3,455	\$531
2003 H2	87	\$29	\$394	\$100	\$240	\$3,242	\$368
2004 H1	111	\$57	\$641	\$101	\$307	\$3,455	\$428
2004 H2	117	\$87	\$821	\$117	\$418	\$3,947	\$622
2005 H1	109	\$57	\$618	\$135	\$245	\$2,632	\$463
2005 H2	73	\$35	\$562	\$167	\$117	\$1,862	\$513
2006 H1	65	\$21	\$390	\$118	\$125	\$2,308	\$413
2006 H2	55	\$31	\$611	\$97	\$169	\$3,387	\$439
2007 H1	69	\$37	\$650	\$153	\$171	\$2,992	\$763
2007 H2	108	\$121	\$1,222	\$159	\$530	\$5,351	\$660
2008 H1	110	\$92	\$1,340	\$224	\$471	\$6,822	\$1,361
2008 H2	113	\$129	\$1,674	\$163	\$346	\$4,488	\$1,001
2009 H1	83	\$49	\$1,290	\$167	\$352	\$9,251	\$1,176
2009 H2	82	\$35	\$552	\$134	\$199	\$3,153	\$935
2010 H1	72	\$54	\$1,168	\$162	\$345	\$7,492	\$730
2010 H2	103	\$19	\$318	\$141	\$129	\$2,195	\$392
2011 H1	94	\$49	\$740	\$93	\$256	\$3,882	\$384
2011 H2	94	\$66	\$967	\$85	\$266	\$3,905	\$661
2012 H1	87	\$61	\$851	\$158	\$252	\$3,504	\$665
2012 H2	64	\$35	\$656	\$143	\$152	\$2,764	\$577
2013 H1	75	\$25	\$407	\$163	\$115	\$1,887	\$531
2013 H2	90	\$79	\$1,022	\$148	\$162	\$2,110	\$538
2014 H1	78	\$30	\$446	\$189	\$93	\$1,364	\$541
2014 H2	90	\$26	\$330	\$135	\$120	\$1,544	\$517
2015 H1	97	\$47	\$599	\$98	\$121	\$1,555	\$388
2015 H2	110	\$71	\$792	\$170	\$266	\$2,956	\$641
2016 H1	120	\$43	\$490	\$191	\$366	\$4,158	\$1,038
2016 H2	151	\$64	\$715	\$202	\$438	\$4,919	\$1,433
2017 H1	223	\$72	\$602	\$139	\$291	\$2,425	\$498
2017 H2	189	\$59	\$770	\$197	\$230	\$3,023	\$903
2018 H1	204	\$157	\$1,591	\$249	\$643	\$6,495	\$1,046
Average (1997–2017)	102	\$60	\$758	\$131	\$301	\$3,810	\$675

Note: Average and median numbers are calculated only for filings with MDL and DDL data.

Appendix 2: Filings by Industry—Core Filings

(Dollars in Billions)

Industry	Class Action Filings				Disclosure Dollar Loss				Maximum Dollar Loss			
	Average 1997–2017	2017 H1	2017 H2	2018 H1	Average 1997–2017	2017 H1	2017 H2	2018 H1	Average 1997–2017	2017 H1	2017 H2	2018 H1
Financial	16	13	7	10	\$9	\$13	\$2	\$20	\$55	\$38	\$10	\$81
Consumer Non-Cyclical	24	55	30	34	\$18	\$16	\$26	\$42	\$68	\$63	\$101	\$188
Industrial	8	13	13	8	\$6	\$10	\$16	\$12	\$19	\$40	\$45	\$180
Technology	11	5	9	10	\$8	\$4	\$4	\$18	\$38	\$49	\$9	\$34
Consumer Cyclical	10	13	9	11	\$5	\$9	\$6	\$11	\$25	\$43	\$41	\$47
Communications	13	12	6	17	\$10	\$11	\$1	\$51	\$73	\$26	\$10	\$88
Energy	4	8	1	3	\$2	\$4	\$0	\$0	\$11	\$18	\$2	\$1
Basic Materials	2	6	5	5	\$1	\$5	\$2	\$2	\$7	\$8	\$8	\$7
Utilities	1	1	1	2	\$1	\$0	\$0	\$1	\$4	\$5	\$3	\$17
Unknown/Unclassified	1	1	6	11	-	-	-	\$0	-	-	-	\$1
Total	91	127	87	111	\$60	\$72	\$59	\$157	\$301	\$291	\$230	\$643

Note:

1. Numbers may not sum due to rounding.
2. Filings with missing sector information or infrequently used sectors may be excluded in prior years.

Appendix 3: California State Section 11 and Section 12 Filings Overview

(Dollars in Millions)

Year	Los Angeles County	Santa Clara County	San Francisco County	San Mateo County	Other	MDL
2010	0	0	0	0	1	\$656
2011	0	0	1	1	1	\$2,679
2012	0	1	1	2	1	\$5,897
2013	0	0	0	1	0	\$187
2014	2	1	1	1	0	\$7,944
2015	2	4	2	7	0	\$36,520
2016	2	0	1	14	1	\$28,680
2017	2	0	0	5	0	\$9,740
2018 H1	1	0	2	2	0	\$3,576
Average (2010–2017)	1	1	1	4	1	\$11,538

Note: Filings in 2010 through 2017 include Section 11 claims and may also include Section 12 and Section 15 claims, but do not include allegations of Rule 10b-5 violations. In 2018, the Securities Class Action Clearinghouse began tracking 1933 Act filings in California state courts with Section 11 or Section 12 claims.

Appendix 4A: Percentage of S&P 500 Companies Subject to Core Filings

Year	Consumer Discretionary	Consumer Staples	Energy / Materials	Financials / Real Estate	Health Care	Industrials	Telecom / IT	Utilities	All S&P 500 Companies
2001	2.4%	8.3%	0.0%	1.4%	7.1%	0.0%	18.0%	7.9%	5.6%
2002	10.2%	2.9%	3.1%	16.7%	15.2%	6.0%	11.0%	40.5%	12.0%
2003	4.6%	2.9%	1.7%	8.6%	10.4%	3.0%	5.6%	2.8%	5.2%
2004	3.4%	2.7%	1.8%	19.3%	10.6%	8.5%	3.2%	5.7%	7.2%
2005	10.3%	8.6%	1.7%	7.3%	10.7%	1.8%	6.7%	3.0%	6.6%
2006	4.4%	2.8%	0.0%	2.4%	6.9%	0.0%	8.1%	0.0%	3.6%
2007	5.7%	0.0%	0.0%	10.3%	12.7%	5.8%	2.3%	3.1%	5.4%
2008	4.5%	2.6%	0.0%	31.2%	13.7%	3.6%	2.5%	3.2%	9.2%
2009	3.8%	4.9%	1.5%	10.7%	3.7%	6.9%	1.2%	0.0%	4.4%
2010	5.1%	0.0%	4.3%	10.3%	13.5%	0.0%	2.4%	0.0%	4.8%
2011	3.8%	2.4%	0.0%	1.2%	2.0%	1.7%	7.1%	2.9%	2.8%
2012	4.9%	2.4%	2.7%	3.7%	1.9%	1.6%	3.8%	0.0%	3.0%
2013	8.4%	0.0%	0.0%	0.0%	5.7%	0.0%	9.1%	0.0%	3.4%
2014	1.2%	0.0%	1.3%	1.2%	0.0%	4.7%	0.0%	0.0%	1.2%
2015	0.0%	5.0%	0.0%	1.2%	1.9%	0.0%	4.2%	3.4%	1.6%
2016	3.6%	2.6%	4.5%	6.9%	17.9%	6.1%	6.8%	3.4%	6.6%
2017	8.5%	2.7%	3.3%	3.3%	8.3%	8.7%	8.5%	7.1%	6.4%
2018 (Annualized)	12.5%	0.0%	3.5%	8.0%	16.1%	8.8%	14.1%	7.1%	9.6%
Average 2001–2017	5.0%	2.9%	1.5%	8.1%	8.3%	3.5%	6.0%	5.2%	5.2%

Appendix 4B: Percentage of Market Capitalization of S&P 500 Companies Subject to Core Filings

Year	Consumer Discretionary	Consumer Staples	Energy / Materials	Financials / Real Estate	Health Care	Industrials	Telecom / IT	Utilities	All S&P 500 Companies
2001	1.3%	6.3%	0.0%	0.8%	5.4%	0.0%	32.6%	17.4%	10.9%
2002	24.7%	0.3%	1.2%	29.2%	35.2%	13.3%	9.1%	51.0%	18.8%
2003	2.0%	2.3%	0.4%	19.9%	16.3%	4.6%	1.7%	4.3%	8.0%
2004	7.9%	0.1%	29.7%	46.1%	24.1%	8.8%	1.2%	4.8%	17.7%
2005	5.7%	11.4%	1.6%	22.2%	10.1%	5.6%	10.3%	5.6%	10.7%
2006	8.9%	0.8%	0.0%	8.2%	18.1%	0.0%	8.3%	0.0%	6.7%
2007	4.4%	0.0%	0.0%	18.1%	22.5%	2.2%	3.4%	5.5%	8.2%
2008	7.2%	2.6%	0.0%	55.0%	20.0%	26.4%	1.4%	4.0%	16.2%
2009	1.9%	3.9%	0.8%	31.2%	1.7%	23.2%	0.3%	0.0%	7.7%
2010	4.9%	0.0%	5.2%	31.1%	32.7%	0.0%	5.9%	0.0%	11.1%
2011	4.6%	0.8%	0.0%	6.9%	0.7%	2.1%	13.4%	0.6%	5.0%
2012	1.6%	14.0%	0.9%	11.0%	0.8%	1.2%	2.2%	0.0%	4.3%
2013	4.4%	0.0%	0.0%	0.0%	4.4%	0.0%	16.6%	0.0%	4.7%
2014	2.5%	0.0%	0.2%	0.3%	0.0%	1.7%	0.0%	0.0%	0.6%
2015	0.0%	1.9%	0.0%	3.0%	3.1%	0.0%	7.0%	3.7%	2.8%
2016	2.8%	1.0%	19.8%	11.9%	13.2%	8.7%	12.3%	4.4%	10.0%
2017	8.2%	6.7%	2.3%	1.5%	2.7%	22.3%	4.4%	9.6%	6.1%
2018 (Annualized)	3.9%	0.0%	2.8%	18.5%	35.5%	13.6%	27.2%	6.9%	17.3%
Average 2001–2017	5.3%	3.1%	3.0%	15.5%	11.4%	7.2%	8.2%	5.9%	8.2%

Appendix 5: Filings by Circuit—Core Filings

(Dollars in Billions)

Circuit	Class Action Filings				Disclosure Dollar Loss				Maximum Dollar Loss			
	Average 1997–2017	2017 H1	2017 H2	2018 H1	Average 1997–2017	2017 H1	2017 H2	2018 H1	Average 1997–2017	2017 H1	2017 H2	2018 H1
1st	4	4	6	2	\$4	\$0	\$1	\$1	\$10	\$1	\$5	\$7
2nd	25	42	33	29	\$20	\$21	\$25	\$33	\$108	\$82	\$80	\$263
3rd	8	22	13	15	\$8	\$12	\$15	\$29	\$30	\$31	\$75	\$135
4th	3	4	3	0	\$1	\$4	\$1	\$0	\$6	\$12	\$5	\$0
5th	6	4	4	6	\$3	\$3	\$1	\$2	\$18	\$12	\$3	\$8
6th	4	1	6	3	\$3	\$1	\$2	\$4	\$13	\$7	\$29	\$6
7th	4	4	0	6	\$3	\$3	\$0	\$2	\$13	\$20	\$0	\$11
8th	3	1	0	1	\$2	\$0	\$0	\$1	\$7	\$0	\$0	\$3
9th	23	32	13	42	\$11	\$22	\$9	\$83	\$76	\$93	\$21	\$199
10th	3	5	2	3	\$1	\$1	\$1	\$1	\$6	\$8	\$6	\$3
11th	7	7	7	4	\$2	\$4	\$5	\$3	\$11	\$14	\$6	\$8
D.C.	0	1	0	0	\$0	\$0	\$0	\$0	\$2	\$11	\$0	\$0
Total	91	127	87	111	\$60	\$72	\$59	\$157	\$301	\$291	\$230	\$643

Note: Numbers may not sum due to rounding.

Appendix 6: Filings by District Court in the Second and Ninth Circuits—Core Filings

Circuit	District Court	Number of Filings 2017 H2	Number of Filings 2018 H1
2nd	S.D. New York	22	21
2nd	E.D. New York	10	7
2nd	D. Connecticut	1	1
		33	29
9th	N.D. California	5	21
9th	C.D. California	7	13
9th	Other	1	8
		13	42

Note: Other Districts in the Ninth Circuit with core filings are E.D. California, S.D. California, D. Arizona, D. Nevada, E.D. Washington, and W. D. Washington.

Research Sample

- The Stanford Law School Securities Class Action Clearinghouse, in collaboration with Cornerstone Research, has identified 4,989 federal securities class action filings between January 1, 1996, and June 30, 2018 (securities.stanford.edu).
- The sample used in this report includes federal filings that allege violations of the Securities Exchange Act of 1933 Section 11, the Securities Exchange Act of 1934 Section 10b, Section 12(a) (registration requirements), or Section 14(a) (proxy solicitation requirements).
- The sample is referred to as the “classic filings” sample and excludes IPO allocation, analyst, and mutual fund filings (313, 68, and 25 filings, respectively).
- Multiple filings related to the same allegations against the same defendant(s) are consolidated in the database through a unique record indexed to the first identified complaint.
- In addition to federal filings, class actions filed in California state courts since January 1, 2010, alleging violations of the Securities Exchange Act of 1933 Section 11 or, starting in 2018, violations of Section 11 or Section 12 are also separately tracked.

The views expressed in this report are solely those of the authors, who are responsible for the content, and do not necessarily represent the views of Cornerstone Research.