2021

VEGA ECONOMICS

Stock Drop Litigation Capacities

VEGA HAS SUPPORTED EXPERTS IN THE FOLLOWING CAPACITIES

- ☑ **ADDRESS LIABILITY**
- ☑ **ASSESS CLASS CERTIFICATION ISSUES**
- ☑ **ANALYZE LOSS CAUSATION**
- ☑ **REBUT DAMAGES**
- ☑ **ASSIST IN SETTLEMENT NEGOTIATIONS**
- ☑ **CONDUCT AND CRITIQUE EVENT STUDIES**

In securities stock drop litigations, Vega provides comprehensive expert support on class certification, liability, and damages issues. In early phases of these cases we assist our clients to assess the merits of the cases.

Our team has supported experts in a variety of practice areas including finance, valuation, and antitrust to address the liability issues in stock drop cases.

We have also applied economic analyses and econometric models to evaluate securities price movements to examine the alleged loss in value attributable to specific events or actions.

LIABILITY ANALYSES

While direct evidence may exist to support plaintiff's theory of liability, expert witnesses may be required to establish or rebut the existence of the behavior at issue. Economists with expertise in a field relevant to the litigation can assist in establishing (or rebutting) liability in stock drop cases. Below we give examples of how different types of stock drop cases call for economic analyses that can address liability.

FINANCE

Shareholders can bring 10b-5 claims against financial institutions for making false statements or omissions regarding sales practices in connection with the sale of complex structured finance products. The theory of liability in these cases rests on the sale practices of the defendant being fraudulent.

Vega supported the expert in a case where plaintiff alleged defendant misled investors when it publicly defended its CDO sales practices. The expert analyzed the financial product and determined that defendant’s activities were consistent with hedging and market making activities. This was used by defense to show defendant's behavior was not fraudulent and therefore liability had not been established. This case is ongoing and proceeding to trial.

VALUATION/M&A

Shareholders can bring 10b-5 claims against defendants for allegedly inflating the company's stock price by making false statements indicating that their business model for acquiring new businesses is successful and sustainable, when in fact the economics of the deals show otherwise. Economists with M&A expertise can address defendant's liability by analyzing the business model and assess whether the statements accurately represented the success and reliability of the model.

ANTITRUST

In ERISA stock drop cases, employees can claim they lost retirement savings because defendant's should have known that the company's stock was inflated due the company's participation in an anticompetitive scheme. Antitrust economists in these types of cases can address the behavior of the company and analyze whether an anticompetitive scheme existed.

The judge recently dismissed an ERISA stock drop case because plaintiffs did not plausibly allege defendant’s participation in an unlawful price-fixing conspiracy.

ELEMENTS OF PROOF

The Vega team has experience addressing the different elements of proof in a variety of stock drop cases. Our experience includes evaluating market efficiency, addressing materiality issues, analyzing evidence of price impact and loss causation, and calculating damages. Our team is efficient and creative in our approach to each unique engagement and we help our clients achieve favorable outcomes.

MARKET EFFICIENCY

At the class certification stage, plaintiffs must establish that the alleged misstatements were made publicly, and that the security traded in an efficient market to ensure that the questions of law or fact common to the class predominate. Rebut the presumption of market efficiency with direct evidence to show that the alleged misrepresentation had no price impact.

MATERIALITY

Event studies can be used to determine whether the alleged misstatement affected the stock price and whether a reasonable investor would have viewed the misstatement as material information at that point in time. Plaintiff experts will testify that the misrepresentation caused the price movement and defense experts can address this claim by establishing the price movement was unrelated to the alleged misrepresentation, the information was already publicly available, or that an investor would not have relied upon it and therefore materiality has not been established.

LOSS CAUSATION

Plaintiffs use event studies to measure of whether a disclosure is associated with a significant change in the total mix of public information regarding a company. Defense experts can rebut this by establishing the losses were not caused by the alleged misrepresentations and the share price declines did not result from the revelation of the relevant truth regarding the misrepresentations.

DAMAGES

Damages analyses play an important role in both the class certification and merits phase, as well as in settlement discussions. Developing a classwide methodology for calculating damages attributable to case allegations requires estimating inflation and losses caused by the alleged fraud. Defendant's experts can critique the plaintiff's classwide methodology for not properly calculating damages attributable to case allegations by addressing the plaintiff's measurement of inflation and the amount of losses caused by the alleged fraud.

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