BLB&G Bernstein Litowitz Berger & Grossmann LLP

In re MBIA Inc., Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 08-cv-0264
CLASS PERIOD: 07/02/2007 - 01/09/2008
CASE LEADERS: John Rizio-Hamilton, Rebecca E. Boon

This is a securities fraud class action filed on behalf of a class of persons and entities that purchased or otherwise acquired the common stock of MBIA Inc. ("MBIA" or the "Company") during the period from July 2, 2007 through and including January 9, 2008 (the "Class Period") and were damaged thereby. On June 30, 2008, the Hon. Kenneth M. Karas appointed BLB&G client Teachers' Retirement System of Oklahoma as Lead Plaintiff and BLB&G as Lead Counsel for the Class.

The Court Approved the $68 Million Settlement Entered Into by Lead Plaintiff

On September 6, 2011, Lead Plaintiff submitted to the Court a proposed Settlement that would resolve all claims in the Action in exchange for payment of $68 million in cash for the benefit of the Class. Following a Settlement Hearing on December 15, 2011, Judge Karas approved the Settlement as fair, reasonable and adequate to the Class, approved the proposed Plan of Allocation of the Net Settlement Fund, and approved Lead Counsel's motion for an award of attorneys' fees and reimbursement of litigation expenses.

The claims administration process has concluded and the net settlement fund has been fully disbursed. This matter is considered closed.

Background

MBIA is a financial insurance company whose ability to maintain its Triple-A credit rating and preserve its reputation for conservative risk management were critical to its success. Lead Plaintiff alleged that, throughout the Class Period, Defendants made a series of materially false and misleading statements regarding the Company's exposure to the most toxic and risky securities on the market - namely, collateralized debt obligations ("CDOs") containing residential mortgage-backed securities ("RMBS"). Indeed, Defendants repeatedly assured investors that the Company's exposure to these securities was limited, and that MBIA was more conservative in this regard than its principal competitors. These representations were highly material to investors because, throughout the Class Period, residential mortgages were defaulting in record numbers, causing investors to directly question whether the collapse in the housing market would harm MBIA. To address these investor concerns, MBIA held special conference calls to detail its exposure to CDOs backed by RMBS, and regularly issued detailed charts which purported to disclose the Company's "total exposure" to these securities. Analysts relied heavily on these assurances, noting that MBIA's exposure was "modest" and that MBIA was "better positioned" than its chief competitor because "it had taken a more conservative approach to the mortgage meltdown" by compiling a "lower risk CDO portfolio."

Lead Plaintiff alleged that these statements were materially false and misleading. On December 19, 2007, MBIA disclosed for the first time that it had understated its exposure to CDOs backed by RMBS by more than $8 billion - an amount which was nearly 25% larger than the Company's entire capital base (i.e., the amount of capital the Company maintained to pay claims), and which represented nearly 50% of the exposure that the Company had previously disclosed. Following this announcement, MBIA stock lost more than 25% of its value in a single day, falling from $27.02 to $19.95, on its highest trading volume of the year. Market analysts expressed "shock[]" and "dismay" at the Company's new disclosure. For example, Morgan Stanley wrote that "we are shocked that management withheld this information as long as it did," that the Company "simply did not disclose arguably the riskiest parts of its portfolio to investors," and that the "massive" exposure "completely changes" the Company's risk profile. Several other analysts and market commentators sharply criticized Defendants for being "dishonest in hiding from investors the toxic waste that they hold."

Less than one month later, on January 9, 2008, investors' worst fears about this previously hidden exposure were confirmed, as the Company disclosed that it already had suffered $200 million of losses due to that exposure, with more substantial losses possible. Moreover, as a direct result of this undisclosed exposure, all three major rating agencies downgraded MBIA, crippling its business.

On October 17, 2008, BLB&G filed the Consolidated Amended Class Action Complaint (the "Complaint") on behalf of Lead Plaintiff and the Class. On January 30, 2009, Defendants moved to dismiss the Complaint. Lead Plaintiff submitted its opposition brief on March 16, 2009, and the motion was fully briefed in April 2009. Oral argument was held on March 5, 2010.

On March 31, 2010, the Court issued an Opinion and Order sustaining Lead Plaintiff's principal fraud claim against MBIA. While the Court also determined that MBIA's senior executives made material misstatements concerning the Company's exposure to toxic CDOs-squared, it nevertheless dismissed the claims against the senior executives on the sole ground that the Complaint failed to allege that they made such misrepresentations recklessly. The Court granted Lead Plaintiff the opportunity to amend its claims against the senior officers, and on April 30, 2010, Lead Plaintiff filed its Second Consolidated Amended Class Action Complaint (the "SAC"). The senior executives have moved to dismiss the amended claims against them.

While that motion was pending, the parties reached an agreement to settle the Action for $68 million in cash.

Case Documents

- Notice of Pendency of Class Action and Proposed Settlement, Settlement Fairness Hearing, and Motion for Attorneys' Fees and Reimbursement of Expenses
- September 6, 2011 – Stipulation and Agreement of Settlement
- April 30, 2010 - Second Consolidated Amended Class Action Complaint
- October 17, 2008 - Consolidated Amended Class Action Complaint
- January 11, 2008 - Class Action Complaint