

**CHRISTOPHER COX**

CALIFORNIA

COMMITTEE ON THE BUDGET

JOINT ECONOMIC COMMITTEE

COMMITTEE ON GOVERNMENT OPERATIONS

SENIOR MEMBER, SUBCOMMITTEE ON  
COMMERCE, CONSUMER AND MONETARY AFFAIRS

CHAIRMAN

TASK FORCE ON  
BUDGET PROCESS REFORM



**Congress of the United States  
House of Representatives**

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208 CANNON BUILDING  
WASHINGTON, DC 20518-0647  
(202) 225-6811

4000 MACARTHUR BOULEVARD  
EAST TOWNS, SUITE 430  
NEWPORT BEACH, CA 92660  
(714) 766-2244

CHAIRMAN:  
CONGRESSIONAL GRACE CAUCUS

CHAIRMAN:  
TASK FORCE ON  
CAPITAL MARKETS

Senator Barbara Boxer  
112 Hart Senate Office Building  
Washington, DC 20510

Dear Barbara:

As the author of the Securities Litigation Reform Act, I am disappointed that you have criticized it and me without even corresponding, let alone calling; instead, you chose to release an intemperate letter (addressed to others in any event) to the press.

Of course, the press provided me with a copy. Let me respond, therefore, to your suggestion that the Congress reconsider our promise to the American people to enact legislation reforming abusive securities litigation.

As you know, our Contract With America pledged to the voters that we would bring to the floor within 100 days a bill that would facilitate valid shareholder claims by deterring the frivolous strike suits that are destroying jobs and hurting the economy. Your letter, which urges us to break that promise, is based on unconscionable distortions of the facts, and an inappropriate attempt to exploit the tragedy in Orange County.

First and foremost, your letter ignores the obvious need for reform of the current strike suit system, which rewards baseless suits and punishes worthwhile ones. California's economy has been particularly hard hit. That is why your California colleagues Norman Mineta, a Democrat, and Carlos Moorhead, a Republican, wrote just last week to warn that "frivolous securities litigation...[is] an issue of growing importance to the State of California." Your colleagues pointed out that "California's high tech, high growth companies are particularly at risk" from such abusive litigation. And they noted that "the average settlement on these types of cases pays 14 cents on every dollar of recoverable damages, with one third of damages going to attorneys."

Such frivolous litigation directly destroys American jobs by forcing America's cutting edge, high-tech companies to divert investment capital from R & D and expansion to legal fees. By imposing asymmetric burdens on American producers, it cripples our ability to compete both at home and abroad. It raises the prices every American consumer pays for American products. And

Richardson and fellow California Democrats like Representatives Tucker, Martinez, and Lantos. Your letter simply ignores this bipartisan consensus, just as it ignores the underlying problem of abusive suits.

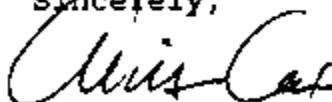
Your specific criticisms of our bill are well wide of the mark, as is your claim that it would obstruct valid claims arising from the current situation in Orange County. Actual fraud--knowing false statements or omissions--will remain fully actionable by injured plaintiffs; reckless or negligent statements or omissions will be actionable by the SEC, state regulators, or investors proceeding under state law. Fraudulent omissions remain unlawful and actionable. And our pleading requirement--drawn directly from Senator Dodd's bill--requires that the complaint allege specific facts, not that it prove them. Such complaints can be amended as the case proceeds, but plaintiffs should at a minimum allege the elements of the offense before commencing a costly lawsuit.

Other features of our bill will facilitate valid claims and help all investors: control of litigation by clients, not lawyers, so that valid claims aren't prematurely settled for lawyers' benefits; fee shifting, which ensures that plaintiffs are genuinely compensated for all their losses; and a safeharbor for predictive statements, so that investors can make informed decisions. These provisions add up to relief for valid claimants and deterrence for frivolous ones.

I should make one last point about Orange County. Orange County's taxpayers, with a GDP larger than Hong Kong's, are the deepest pocket in this case. They will be the target of every frivolous claim that the more unscrupulous members of the plaintiffs' bar can produce. If our bill is not passed, Orange County taxpayers will pay the tab.

I hope that your future contributions to the debate over strike suit reform will be more representative of our State's interests, and less representative of the interests of the trial bar.

Sincerely,



Christopher Cox  
U.S. Representative

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