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VERDICTS & SETTLEMENTS

U.S. Judge Tosses Shareholders' Class Suit Against Perot Systems

By Peter Zuckerman
Daily Journal Staff Writer

Perot Systems Corp. has won a class action brought by shareholders alleging that stock prices dropped because the company conspired with Enron and others to manipulate California's electricity market.

Attorneys representing the corporation said the case is the last of three to be dismissed against Perot Systems, one of the companies blamed after blackouts rolled through California during the energy crisis in 2000 and 2001.

In May 2005, Perot Systems won an appeal in a California class action involving similar allegations. And in 2002, Perot Systems fended off government allegations about illegally manipulating California's energy.

In the latest case, U.S. District Judge Sidney A. Fitzwater of Texas found March 31 that Perot Systems had sufficiently disclosed information to shareholders and that the information adequately stated what the company had done.

Even if shareholders' proved their allegations, the judge wrote, those allegations were not enough to show Perot Systems broke the law.

"Despite multiple opportunities to plead sufficient facts, ... they have not done so," the judge ruled.

The case, a consolidation of eight others, was filed in the Northern District of Texas, in Dallas, near Perot Systems' Plano headquarters. *Milano v. Perot Systems Corp*, 3:02-CV-12269-D (N.D. Texas, final consolidated complaint filed March 31).

"Perot Systems is not an energy provider and has never been found to have done anything wrong," said lead defense attorney Gordon A. Greenberg, a partner at McDermott Will & Emery in Los Angeles.

McDermott attorneys Stephen A. Kroft, Richard J. Frey, Daniel B. Chammas and Francisca M. Mok also worked on the case.

The suit arises from the late 1990s when companies were prepared for the deregulating the energy market in California.

Perot Systems helped companies hook into the electricity grid in a way that the computers involved could talk to one another. Perot Systems offered consulting advice about how deregulation might affect the energy industry and what energy companies could do about it. The services were marketed to Southern California Edison, Pacific Gas & Electric and San Diego Gas & Electric, among others. The complaint says Perot Systems made sales pitches to Enron, Reliant Energy and other energy traders.

On June 5, 2002, California state Sen. Joseph Dunn announced that the sales presentations by Perot Systems were actually teaching energy companies to cheat and make electricity more expensive.

Within a month of Dunn's announcement, Perot stock dropped from $18 to $10. Soon afterward, shareholders sued, claiming securities fraud because they hadn't been told about the company's illegal activities, which were never actually shown to be illegal.

Shareholders "paid an artificially high price for company stock because the company had failed to disclose such negative facts," said the complaint. Merrick S. Rayle of Lovell Stewart Halebian in Pacific Grove argued for the plaintiffs.

The defense argued that nothing illegal had been done: Perot Systems never provided confidential information to anyone — its presentations about the electricity market were based on public information — and the company had appropriately disclosed its marketing endeavor before going public in February 1999. The judge agreed and dismissed the case.

"I have to say, I'm surprised by the ruling," Rayle said.