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MONEY

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Lawsuit against Schwab settled

Brokerage firm to spend $20 million

By Pamela Coyle
Staff writer

A federal judge in New Orleans has given his final, formal blessing to a settlement of a long-running lawsuit on behalf of millions of current and former Charles Schwab Corp. customers nationwide.

The discount brokerage will spend up to $20 million over the next four years to educate investors, beef up disclosures about routing policies and improve the way it processes buy and sell orders.

In return, the investors will drop their class-action lawsuit that accused the company of not always routing buy and sell orders to market-makers with the best prices and failing to disclose payments it received from such firms, which execute the trades.

The company admitted no wrongdoing but said it agreed to changes that go beyond regulatory requirements to end the litigation.

"We are glad that it is over," said Tim Eagan, a New Orleans attorney who represented Schwab. "It is the end of a long, arduous bout of litigation."

The investors' attorney, Randall Smith, said he's pleased with U.S. District Judge Charles Schwartz Jr.'s ruling.

"After five years of litigation, we've finally been able to bring about fundamental improvements for Schwab customers," he said.

Investors accused the brokerage firm of violating its fiduciary duty by sending orders to regional and third markets, which paid the company for order flow. The arrangement set up a potential conflict of interest and did not ensure customers got the best price, the lawsuit contended. In securities lingo, the concept is "best execution," which means the most favorable terms possible under existing circumstances.

Schwartz ruled the settlement was fair, even though it will neither put money in investors' pockets nor give them discounts on trades. Proving damages for millions of

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Investors claimed Schwab was unfair

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current and former Schwab investors would be "extremely difficult" and an analysis of trades of the named plaintiffs showed no price disparities that cost them money, the judge said.

"It appears from the expert testimony that the proof of plaintiffs' allegations would be difficult, complex, expensive, and time-consuming and may well produce no evidence of damages at all," Schwartz wrote.

The opinion was signed Friday and released Monday.

Schwartz also rejected an attempt by a handful of investors to intervene in the lawsuit and scuttle the proposed settlement, which was crafted last year. Attorneys for four investors argued the benefits are deceptive and don't really give investors anything of real value.

The class includes investors who were customers between 1985 and mid-1999. More than 6 million current Schwab customers received notice this year in their monthly statements; ads were published in USA Today and the Los Angeles Times to alert former customers.

As part of the agreement, Schwab will pay the investors' attorneys up to $900,000 for time and expenses; a federal magistrate will set the final amount.Similar lawsuits are filed against Fidelity Investments in federal court in New Orleans and Quick & Reilly Group Inc. in Civil District Court in New Orleans. They have been dormant pending the resolution of the Schwab case.