MICHIGAN LAWYERS WEEKLY
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Monday, August 17, 2009 Lawyers Weekly, Inc.

From the July 20, 2009 Michigan Lawyers Weekly.

Verdicts & Settlements

Company falsely claimed revenues, earnings

Stock drops drastically as 'material irregularities' not limited to just one sector

$20 million

In a securities fraud class-action lawsuit filed in U.S. District Court, Eastern District of Michigan, the plaintiffs alleged that during the class period, ProQuest Co., a leading publisher of solutions for the education, automotive and power equipment markets, falsely claimed consistent and increasing revenues and earnings.

The case, brought by lead plaintiffs B.V. Brooks, John L. Marocchi and Sales Marketing Group, MPP, asserted defendant ProQuest and individual defendants James P. Roemer, Alan Aldworth, Kevin Gregory and Scott Hirth violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

Plaintiffs alleged that during the class period, ProQuest, a leading publisher of solutions for the education, automotive and power equipment markets, falsely claimed consistent and increasing revenues and earnings.

Plaintiffs contended that, despite defendants' representations to the contrary, ProQuest's results were not the product of a well-executed business plan. Rather, the company's seemingly positive revenue and earnings results were dependent on a variety of improper and fraudulent accounting manipulations.

On Feb. 9, 2006, ProQuest announced that "material irregularities" had been discovered in its accounting. As a result, the company intended to restate certain of its previously issued financial statements for 1999 through the first three quarters of 2005.

Following the Feb. 9 announcement, ProQuest stock declined by 18 percent that day on heavy trading volume.

At the same time, plaintiffs alleged, ProQuest stated that the irregularities identified until that point primarily affected only one of the company's business segments, the PQIL division, and excluded ProQuest's other business segments.

Thus, according to plaintiff's arguments, the defendants created the impression that the accounting fraud was limited in scope to the PQIL division.

The company later stated that an audit committee investigation concluded that the accounting fraud was committed by a rogue employee.

On Dec. 15, 2006, prior to the opening of the markets, ProQuest acknowledged the full scope of the accounting irregularities, stating for the first time that accounting issues were not isolated to PQIL, but had also permeated the company's other business units, requiring a restatement of earnings from 2001 through 2005.

Following these disclosures, the company's stock price dropped 27 percent from its prior day close

The defendants each filed motions to dismiss, which were denied by the court, and subsequently settled the suit for $20 million.

Type of action: Securities fraud (class action)

Type of injuries: Loss in value of securities due to false and misleading statements about defendant's earnings

Name of case: In re Proquest Securities Litigation

Court/Case no./Date: U.S. District Court, Eastern District of Michigan; 06-CV-10619; March 30, 2009

Name of judge: Avern Cohn

Settlement amount: $20 million

Attorneys for plaintiff: E. Powell Miller, Marc L. Newman, Joel Strauss, Michael Yarnoff

Attorneys for defendants: Withheld