

Securities fraud class-action suit is settled

In a securities fraud class-action lawsuit in U.S. District Court for the Eastern District of Michigan, the plaintiffs argued that defendant Caraco Pharmaceutical Laboratories Ltd. and its management had misrepresented the scope and severity of alleged FDA violations in connection with the manufacture of generic pharmaceutical drugs.

When the alleged violations led to a federal raid on the company's production facility, plaintiffs claimed that their investments lost substantial value.

Counsel for the plaintiffs noted that a key issue in the case was resolved in February 2012, when Judge Arthur J. Tarnow certified the case as a class action. In securing certification, plaintiffs successfully established "market efficiency," that the company's shares traded in a market efficient enough that their prices reflected the company's public disclosures, or lack thereof.

Caraco vigorously contested this issue, claiming that the stock's "average weekly trading volume" was insufficient for the stock's price to reflect the company's statements. It asserted that, during certain periods of time, the number of shares traded fell below the threshold that courts usually find to indicate efficiency.

However, as Tarnow noted in his opinion, "[d]efendants' expert, when asked why [a] particular [date] range was significant, honestly answered that the range had been chosen to demonstrate that stocks were trading at a lower volume in a particular range." Tarnow also agreed with the plaintiffs that, over the entire relevant period of time, the trading volume was sufficient.

The matter settled for \$2.975 million.

Type of action: Securities fraud

Name of case: *In Re: Caraco Pharmaceutical Laboratories, Ltd. Securities Litigation*

Court/Case no./Date: U.S. District Court, Eastern District of Michigan; 2:09-CV-12830; June 26, 2013

Name of judge: Arthur J. Tarnow

Name of mediator: William A. Sankbeil

Settlement amount: \$2.975 million

Most helpful expert: Van E. Conway, business valuation, Birmingham

Attorneys for plaintiff: E. Powell Miller, Christopher D. Kaye

Attorneys for defendant: Frank A. Taylor, Margaret A. Goetze (Minneapolis)