

In re Clarent Corporation Securities Litigation

COURT: United States District Court for the Northern District of California
CLASS PERIOD: 04/26/2000 - 08/31/2001

Securities fraud class action filed by BLB&G client Lead Plaintiff Otter Creek Partners on behalf of all persons and entities who acquired the common stock of Clarent Corporation ("Clarent"), between April 26, 2000 and August 31, 2001, inclusive (the "Class Period").

BLB&G obtains liability verdict in Clarent Securities Fraud Trial

February 17, 2005 BLB&G obtained only the second securities fraud class action verdict in favor of investors since the 1995 passage of the PSLRA. After 4 weeks of trial and 3 days of deliberation, a San Francisco jury found liability against defendant Jerry Chang, CEO of Clarent, for a knowing omission or misstatement in Clarent's second quarter 2001 10-Q. The jury also found that Clarent's former auditor Ernst & Young ("E&Y") made a false statement in connection with Clarent's second quarter 2001 10Q, although it declined to assign liability to E&Y for the misstatement.

In this action, Plaintiffs sought to demonstrate that both Chang, the founder and CEO of Clarent, and Clarent's auditor E&Y - defrauded shareholders by materially overstating Clarent's revenues for fiscal year 2000 and the first two quarters of fiscal year 2001. The Plaintiffs alleged that Chang knowingly falsified the company's financial statements during this period and that E&Y, in its auditing capacity, knowingly signed off on these fraudulent financial reports.

BLB&G began prosecuting this securities fraud class action in the United States District Court for the Northern District of California in the summer of 2002.

Clarent, Chang and "ISDs" agree to \$6.9 million settlement

A settlement of \$6.9 million was reached with Clarent, Jerry Chang and certain of Clarent's officers, collectively the "Individual Settling Defendants" or "ISDs," in this action, which the Court approved on July 14, 2005.

Cooley defendants agree to \$2 million settlement

A settlement of \$2 million was reached with the "Cooley Defendants" in this action, which the Court approved on March 25, 2005.

Background

Clarent's stock ceased trading on September 4, 2001 as a result of the Company's disclosure that the revenues reported in its financial statements for the first two quarters of 2001 may have been overstated. On October 23, 2001, Clarent announced that its investigation indicated that there have been financial irregularities that materially affect the previously reported results for fiscal year 2000 as well as the first two quarters of fiscal 2001. On May 8,

2002, Clarent restated its revenues and earnings for those six quarters and as a result, its stock price plummeted, leaving shareholders suffering massive losses.

On September 9, 2002, in what was a significant decision for the future of securities cases, Judge Breyer of the District Court granted plaintiffs' motion to lift the PSLRA discovery stay and ordered discovery to begin. This is noteworthy because typically, since the passage of the PSLRA in 1995, plaintiffs in securities actions have rarely been able to obtain discovery from defendants in the early stages of a case. The PSLRA dictates that discovery cannot begin until all motions to dismiss the complaint have been ruled upon. In another victory for plaintiffs in this case, on December 9, 2003, Judge Breyer denied defendants' motions to dismiss.

The claims administration process has concluded and the net settlement fund has been fully disbursed. This matter is considered closed.

Case Documents

- Notice of Pendency and Proposed Settlement - Cooley Defendants
- Notice of Class Action
- Notice of Pendency and Settlement - Clarent