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Analysis Group Helps Ernst & Young Achieve Victory in Rare Trial of Securities Fraud Case

Boston, April 18, 2005 — In only the third trial of its nature to go to a verdict in the last decade, Analysis Group's client, auditor Ernst & Young, was found to have no liability and was not responsible for any damages in the securities fraud suit against Clarent Corporation in which Ernst and Young was named a co-defendant.

Analysis Group was retained by Latham & Watkins on behalf of Ernst & Young in a case involving accounting irregularities at Clarent. Clarent shareholders filed a class action accusing the company of overstating revenues, claiming that Ernst & Young was liable for securities fraud, and requesting approximately \$125 million in damages.

At issue was the nature of Clarent's stock price decline and the per-share inflation, and thus damages, which could be attributed to any accounting misstatements. "While trials of this particular kind are rare, outcomes are often determined by what turns into a battle between experts," said **Bruce Deal**, Managing Principal of Analysis Group. "Successful outcomes in any class action proceeding involving disparate damages claims depend on expertise in developing sophisticated counter-arguments to plaintiffs' damages estimates." Analysis Group consulted on damages and causation issues and provided expert testimony on damages issues, working with E&Y general counsels Robert Cohen and Joel Bonner, and attorneys Peter Wald, Peter Devereaux, Michele Kyrouz, and Janet Malloy Link of Latham & Watkins.

With steep declines in Clarent's stock price, plaintiffs' expert contended that the fraud accounted for up to \$8 in per-share inflation when the stock was trading at prices of \$10-12, resulting in the \$125 million calculation. Managing Principal **Robert Sherwin**, Analysis Group's expert, calculated the inflation at a maximum of \$1.92 a share. When the case went to the jury, Sherwin's testimony proved to be determinative; Ernst & Young was found to be without liability.

Analysis Group provides economic, financial, and business strategy consulting to law firms, corporations, and government agencies. The firm has more than 300 professionals, with offices in Boston, Dallas, Denver, Los Angeles, Menlo Park, New York, San Francisco, Washington, DC, and Montreal, Canada.

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