Largest Settlement Ever Obtained in the Sixth Circuit

A $600 million settlement for shareholders in the securities fraud class action against Ohio’s biggest drug distributor, Cardinal Health, Inc., was approved in October 2007.

The settlement is the largest ever obtained in the Sixth Circuit and represents a significant recovery for the class achieved by lead plaintiffs Amalgamated Bank, as Trustee for the LongView Collective Investment Fund, LongView 600 Small Cap Collective Fund, LongView VEBA 500 and LongView Quantitative Fund; California Ironworkers Field Trust Funds; New Mexico State Investment Council; and PACE Industry Union-Management Pension Fund.

“Judge [Algenon] Marbley’s approval of this settlement is a tremendous victory for the shareholders that were victimized by Cardinal Health’s fraudulent activity,” said plaintiffs’ attorney Henry Rosen.

Cardinal Health is a drug middleman with a huge market share of the multi-billion dollar pharmaceutical distribution business, buying from “Big Pharma” manufacturers and reselling and distributing drugs to nationwide pharmacies like CVS and Walgreens. As far as investors knew, Cardinal Health’s business was booming – until the company’s 2004 announcement that it was under investigation by the SEC for revenue misclassification.

This announcement and subsequent restatement of earnings triggered a sudden decline in Cardinal Health’s stock price during mid-2004, resulting in approximately $3 billion in losses for investors. The victims filed a class action lawsuit on behalf of all purchasers of Cardinal Health common stock during the October 24, 2000 through July 26, 2004 class
period.

As uncovered by plaintiffs’ counsel in the course of investigating the fraud and conducting pre-trial discovery, insiders knew that Cardinal Health’s long run of double-digit growth was coming to an end in 2000. To create the misleading impression of continued growth at historic high rates and meet market expectations, defendants embarked on a scheme to reclassify zero-margin bulk transactions as profitable operating revenue.

During the class period, the misclassification of revenue had the intended effect of inflating Cardinal Health’s stock price to levels as high as $74 per share. Beginning in May 2004, however, the company was forced into making a series of embarrassing disclosures: first, that the SEC had launched a formal investigation; second, that the investigation focused on Cardinal Health’s misclassification of revenue; and third, that Richard Miller, Cardinal Health’s CFO, had been forced to resign. In the wake of the scandal, Cardinal Health’s stock price lost 40% of its value, settling at $44 per share.

*In re Cardinal Health, Inc. Sec. Litig., No. C2-04-575 (S.D. Ohio).*