

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF LOUISIANA



EARL THOMPSON)	CASE NO. 04-1685
)	
Plaintiff,)	CLASS ACTION COMPLAINT FOR
)	VIOLATIONS OF FEDERAL
vs.)	SECURITIES LAWS
)	
THE SHAW GROUP, INC., TIM BARFIELD,)	<u>JURY TRIAL DEMANDED</u>
JR., J.M. BERNHARD, JR., RICHARD F. GILL)	
AND ROBERT BELK,)	
)	
Defendants.)	

SECT. C MAG. 1

Plaintiff has alleged the following based upon the investigation of plaintiff’s counsel, which included a review of United States Securities and Exchange Commission (“SEC”) filings by The Shaw Group, Inc. (“Shaw” or the “Company”), as well as regulatory filings and reports, securities analysts reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of purchasers of the securities of Shaw between October 19, 2000 and June 10, 2004 inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

1. The claims asserted herein arise under and pursuant to Sections 10 (b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j (b) and 78t (a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5].

2. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

3. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District and Shaw conducts business in this District.

4. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

5. Plaintiff Earl Thompson, as set forth in the accompanying certification, incorporated by reference herein, purchased the common stock of Shaw at artificially inflated prices during the Class Period and has been damaged thereby.

6. Defendant Shaw is a corporation organized under the laws of Louisiana with its principal executive offices located at 4171 Essen Lane, Baton Rouge, Louisiana. At all relevant times, Shaw described itself as “a leading global provider of comprehensive services to the power, process, and environmental and infrastructure industries.”

7. Defendant Tim Barfield, Jr. (“Barfield”) was, at all relevant times since September 2003, a Shaw Director and Shaw’s Chief Operating Officer.

8. Defendant J. M. Bernhard, Jr. (“Bernhard”) was, at all relevant-times, Chairman of the Board and Shaw’s Chief Executive Officer. During the Class Period, Bernhard sold Shaw stock for proceeds of \$58,851,392.

9. Defendant Richard F. Gill (“Gill”) was, at all relevant times until September 2003, Shaw’s Vice President and Chief Operating Officer, and President of Stone & Webster, Inc. (“Stone & Webster”). During the Class Period, Gill sold Shaw stock for proceeds of \$2,284,956.

10. Defendant Robert L. Belk (“Belk”) was, at all relevant times, Shaw’s Chief Financial Officer. During the Class Period, Belk sold Shaw stock for proceeds of \$1,463,836.

11. Defendants Barfield, Bernhard, Gill and Belk, together, are referred to herein as the “Individual Defendants.”

12. During the Class Period, the Individual Defendants, as senior executive officers and directors of Shaw, were privy to confidential and proprietary information concerning Shaw, its operations, finances, financial condition, present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning Shaw, as discussed in detail below. Because of their positions with Shaw, the Individual Defendants had access to non-public information about its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and board of directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded the fact that adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

13. The Individual Defendants are liable as direct participants and co-conspirators with respect to the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and a director, were “controlling persons” within the meaning of Section 20 of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of Shaw’s business.

14. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. The Individual Defendants were provided with copies of the Company’s reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

15. As senior executive officers and/or directors and controlling persons of a publicly traded company whose common stock and other securities were, and are, registered with the SEC pursuant to the Exchange Act, and whose shares traded on the New York Stock Exchange (“NYSE”) and governed by the federal securities laws, the Individual Defendants had a duty to disseminate promptly accurate and truthful information with respect to Shaw’s financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, to correct any previously issued statements that had become materially misleading or untrue, so that the market price of Shaw’s common stock would be based upon truthful and accurate information. The Individual

Defendants misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

16. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of Shaw common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding Shaw's business, operations and management and the intrinsic value of Shaw common stock and caused plaintiff and members of the Class to purchase Shaw's common stock and other securities at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

17. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the securities of Shaw between October 19, 2000 to June 10, 2004, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

18. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Shaw common shares and other securities were actively traded on the New York Stock Exchange. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Shaw or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

19. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

20. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

21. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business and operations of Shaw; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

22. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

BACKGROUND

23. Shaw describes itself as a vertically integrated provider of complete piping systems and comprehensive engineering procurement and construction ("EPC") services to the power generation industry. The Company also works in the process industries, including

petrochemical, chemical and refining, and the environmental and infrastructure sector. Between 1990 and 2002, demand for domestic electricity generation increased substantially while capacity remained relatively flat. This imbalance, coupled with deregulation of the power industry and decommissioning of nuclear plants, resulted in a surge in domestic construction of power plants and resulted in the rapid growth of Shaw's business.

24. Between fiscal year 2000 and fiscal year 2002, Shaw's reported annual net income increased more than threefold, from \$30 million to \$98.4 million. However, unbeknownst to investors, the Company's reported earnings were artificially inflated through the improper manipulation of reserve accounts established in connection with two large acquisitions, and through the premature recognition of earnings in violation of the Company's own purported policies and Generally Accepted Accounting Principals ("GAAP"). Additionally, the Company failed to disclose the extent to which it was vulnerable to the financial problems that decimated companies in the domestic power generation sector when the sector began its downturn in late 2001.

25. Defendants' fraudulent conduct resulted in a run-up of the price of Shaw securities, from \$39.56 at the commencement of the Class Period, to a high of \$62.37 on April 25, 2001.¹ The shares continued to trade at artificially inflated levels until August 5, 2003 when the Company announced that a major customer had missed a \$32 million milestone payment, at which time the stock fell to \$16.00.

26. During the Class Period, in May 2002, the Company sold \$490 million in convertible zero coupon liquid yield option notes ("LYONS") and used 1.67 million shares of its artificially inflated stock, then valued at approximately \$50 million, as currency to acquire The

¹ All stock prices are adjusted to account for a two-for-one stock split on December 18, 2000.

IT Group, Inc. Additionally, during the Class Period, company insiders, including the Individual Defendants, sold Shaw common shares for proceeds of \$80.1 million, including proceeds of \$58.8 million from shares sold by defendant Bernhard.

Shaw Used Cookie Cutter Reserves to Boost Profit Margins and Earnings

27. On July 7, 2000, Shaw announced that it was the successful bidder in the auction for the business of Stone & Webster in a proceeding under Chapter 11 of the U.S. Bankruptcy Code with a purchase price of \$38 million in cash, and approximately 2.5 million shares of Shaw common stock (valued at approximately \$105 million), and assumed liabilities of approximately \$450 million. The transaction, in which Shaw acquired most of Stone & Webster's operating assets, closed on July 14, 2000. Stone & Webster was a holding company, operating through various affiliates that provided full-service, value-added engineering, procurement, construction, consultation and environmental services to the power, process, governmental and industrial markets.

28. In its Annual Report for the fiscal year ended August 29, 2000, on Form 10-K filed with the SEC on November 29, 2000, the Company stated that it had acquired from Stone & Webster a large number of contracts with either inherent losses or lower-than-market remaining profit margins due to the effect of the financial difficulties experienced by Stone & Webster on negotiating and executing the contracts. The Company further stated that it had "adjusted" these contracts to their fair value at acquisition date by establishing a reserve of approximately \$83.7 million to reduce contract costs incurred in future periods and adjust the gross margins recognized on the contracts. In addition, Shaw recorded accrued losses on assumed contracts of approximately \$36.3 million. The total amount was recorded on the balance sheet as a gross margin reserve of \$121.8 million. However, the Company did not identify the

contracts to which the reserves were to be applied nor the method by which it was to determine the contracts' actual value, as negotiated by Stone & Webster, relative to their then-current fair market value.

29. In its Form 10-K for the fiscal year ended August 29, 2001, Shaw stated that it had increased the gross margin reserve account, as a result of "a more accurate determination of the actual contract status at the acquisition date," through the addition of \$38.1 million to reduce contract costs incurred in future periods and \$5.4 million in accrued future cash losses but again failed to disclose the method by which it arrived at its "more accurate determination of the actual contract status at the acquisition date," relative to the then-current market value of the contracts.

30. In May 2002, Shaw acquired substantially all of the operating assets of The IT Group and its subsidiaries. The IT Group was a provider of diversified environmental consulting, engineering, construction, remediation and facilities management services. The IT Group and one of its wholly-owned subsidiaries, Beneco, were subject to separate chapter 11 bankruptcy reorganization proceedings and the acquisition was completed pursuant to the bankruptcy proceedings. The acquisition of The IT Group assets was completed on May 3, 2002 and the acquisition of Beneco's assets was completed on June 15, 2002. The purchase price included \$53 million in cash, 1,671,336 shares of Shaw common stock valued at approximately \$52,463,000, and the assumption of the outstanding balances of \$51,789,000 debtor-in-possession financing provided to The IT Group and Beneco by the Company.

31. In connection with The IT Group Acquisition, Shaw added \$36.4 million to the gross margin reserve account, purportedly for adjustments to below-market value contracts but, once again, the Company failed to disclose its determination of the actual contract values relative to the contracts' then-current market value.

32. Throughout the Class Period, the Company drew on the gross margin reserve account to reduce costs and thereby increase reported profit margins and earnings but it never identified the contracts to which the reserves were applied, the method of determining the allocation of the reserves, or the timing of the allocations.

33. Unbeknownst to investors, the contract reserves were not based on a reliable or reasonable analysis of the actual fair market value of the contracts acquired from Stone & Webster and The IT Group, but rather, were “cookie cutter” reserves upon which the Company drew as needed to falsely and misleadingly reduce operating expenses and thereby represent earnings growth as being materially greater than it actually was. Shaw was managing its earnings as opposed to reporting its true financial condition and results.

Shaw Prematurely Recognized Revenue in Violation of its Own Purported Policies and Generally Accepted Accounting Principles

34. On November 29, 2001, the Company filed its Form 10-K for the year ended August 31, 2001 in which it set forth its purported revenue recognition policy. In this regard, the Form 10-K stated, in pertinent part, as follows:

For project management, engineering, procurement, and construction services, the Company recognizes revenues under the percentage of completion method measured primarily on contract costs incurred to date, excluding the costs of any purchased but uninstalled materials, compared with total estimated contract costs. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Profit incentives are included in revenues when their realization is reasonably assured.

35. Defendants knew or recklessly disregarded that this statement was materially false and misleading because the Company routinely reported revenue in excess of the contract costs incurred to date as a percentage of the total estimated contract costs at completion and, in the case of cost-plus-fee contracts, before the fee was earned and its realization reasonably assured.

36. As noted above, Shaw’s revenue recognition policy was to record revenues using the percentage-of-completion method of accounting by relating contract costs incurred to date to total estimated contract costs at completion. Under this method, an estimate of total contract costs (which consist of internal costs, including salaries and wages, and external costs, including subcontractor costs) must be reasonably estimated for each contract. At the end of each accounting period, the percentage to which each of the Company’s contracts is complete must be computed based on production costs incurred to date as a percentage of total estimated production costs. This percentage must then be multiplied by the contract’s total value to calculate the sales revenue to be recognized, as follows:

$$\begin{array}{rcl}
 \text{PRODUCTION COSTS} & & \\
 \text{INCURRED TO DATE} & & \\
 \hline
 & \text{TOTAL} & = \text{RECOGNIZABLE} \\
 & \text{CONTRACT VALUE} & \text{SALES REVENUE} \\
 \hline
 \text{TOTAL ESTIMATED} & & \\
 \text{PRODUCTION COSTS} & &
 \end{array}$$

37. Contrary to its publicly stated policy of revenue recognition, and contrary to GAAP, Shaw improperly overstated the Company’s apparent revenue and income growth by inflating the costs expended on fixed-price contracts (thereby increasing the “numerator” in the percentage-of completion formula), leading to improperly inflated revenues and earnings.

The Company Failed To Disclose The Extent To Which It Was Dependent On A Handful Of Customers Who Were Vulnerable To A Downturn In Demand For Domestic Power

38. In fiscal 2002 and 2001, the Company entered into several significant EPC contracts for new domestic gas-fired combined cycle power plants and, in fiscal year 2001 and 2002, during the Class Period, recognized revenues of approximately \$1.5 billion and \$250 million, respectively, in connection with these contracts. As set forth above, the Company prematurely recognized revenue on these contracts and, furthermore, failed to disclose the extent

to which its customers were susceptible to a downturn in the energy market and the disastrous effect this would have on Shaw's financial condition and prospects.

39. On August 5, 2002, one such customer, LSP-Pike Energy, LLC ("Pike"), notified the Company of its intention to not pay a scheduled \$32 million milestone billing on the required due date of August 4, 2002. The Company further disclosed that, if Shaw and Pike could not work out an agreement by which Shaw would purchase the half-finished power plant, "there could be a material adverse effect to Shaw's ability to meet its current earnings expectations for the quarter." At the time of the announcement, Pike owed the Company approximately \$120 million in costs to be incurred and fees over the amounts already paid under the contract. On this news, the price of Shaw fell by 26% from a closing price of \$21.76 on August 2, 2002 to a low of \$16.02 on August 5, 2002, the next trading day.

40. Throughout the remainder of the Class Period, the Company blamed its deteriorating performance on the failure of the Pike project and a down turn in the power generation market when, in fact, it was also attributable to depletion of the margin reserve account defendants had previously drawn from to bolster earnings. The full truth began to emerge on June 10, 2004, the end of the Class period, when the Company belatedly disclosed that the SEC had commenced an investigation into the Company's accounting for certain of its acquisitions.

Materially False And Misleading Statements

41. The Class Period begins on October 19, 2000. On that date, Shaw issued a news release over the *Business Wire* in which it announced its financial results for the fourth quarter and fiscal year ended August 31, 2000. The release was headlined, "The Shaw Group Announces Increases in Sales and Earnings For Fourth Quarter and Fiscal Year 2000." In the release, the Company reported 4th fiscal quarter net income of \$9.6 million, or \$0.59 per share, up 77 percent

from earnings of \$5.75 million, or \$0.49 per share, in the 4th fiscal quarter of 1999. For the full fiscal year, the Company reported net income of \$29.5 million, or \$1.99 per share, compared to earnings of \$18.1 million, or \$1.52 per share in fiscal year 1999.

42. With respect to the purported strength of the Company's financial results, the release stated as follows:

J. M. Bernhard, Jr., Shaw's Chairman, President and Chief Executive Officer, stated, "This has been an exceptional year to add to our solid track record of growth. Our management team was at its best, and our employees at every level should be commended for their commitment to our success. The integration of Stone & Webster is progressing as we had hoped, and we expect to begin adding projects from EntergyShaw into our backlog by the end of the calendar year. As we move into fiscal 2001, we will continue to act strategically and opportunistically, with an inherent focus on bringing additional value to our shareholders."

43. On October 20, 2000, Merrill Lynch, which subsequently underwrote Shaw's private offering of \$490 million convertible zero coupon, liquid yield option notes (the LYONS offering), issued a bulletin, headlined "Strong Market, Solid Execution," in which it gave an intermediate term opinion of "accumulate" and rated the stock a long term buy. The bulletin stated, in pertinent part:

Shaw seems to have had a very strong quarter, with good execution and a strong marketplace both contributing to results. For the year, and excluding ordinary items, EPS were \$1.95 per versus \$1.46 last year and compared to our estimate of \$1.85. [. . .] ***We had assumed that the acquired Stone & Webster assets would be neutral to the quarter, but according to management, they contributed \$0.02-0.03 to EPS.*** Bottom line, we think results for the quarter, apples-to-apples, were perhaps a nickel better than we'd expected. [. . .] We've been expecting SW to be \$0.20-\$0.30 accretive to FY01, but this may be low if SW could contribute at a \$0.20 annual run rate in the quarter even before the associated debt is paid down by asset sales. [Emphasis added.]

44. On November 29, 2000, Shaw filed its annual report with the SEC on Form 10-K for the fiscal year ended August 31, 2000 incorporating the financial results released by Shaw on

October 19, 2000. The Form 10-K contained the following statement with respect to contracts acquired from Stone & Webster:

The Company acquired a large number of contracts with either inherent losses or lower than market remaining margins due to the effect of the financial difficulties experienced by Stone & Webster on negotiating and executing the contracts. These contracts were adjusted to their fair value at acquisition date by establishing a reserve of approximately \$83.7 million which will reduce contract costs incurred in future periods and adjust the gross margins recognized on the contracts. In addition, the amount of the accrued losses on assumed contracts was approximately \$36.3 million. Since the date of acquisition of Stone & Webster, the Company reflected a \$13.5 million net reduction of contract costs as a result of these accrued contract losses and reserves.

45. The statements referenced above in ¶¶42-43 and 45 were each materially false and misleading when made as they misrepresented and/or omitted the following adverse facts which then existed and disclosure of which was necessary to make the statements not false and/or misleading, including, but not limited to:

(a) The \$83.7 million reserve that purportedly adjusted contracts acquired from Stone & Webster to fair value, and the accrued losses of \$36.3 million, were not based upon a reliable or reasonable analysis of the actual fair market value of the contracts but rather, were “cookie cutter” reserves upon which the Company drew as needed to keep reporting earnings in line or in excess of analysts estimates;

(b) There was, therefore, no reasonable basis for the \$13.5 million net reduction of contract costs based on these accrued losses and reserves;

(c) As a result of this practice, the Company’s reported earnings were artificially inflated;

(d) The Stone & Webster acquisition was not accretive to 4th quarter earnings; and

(e) The Company improperly reported revenue and earnings in violation of its purported revenue recognition policy.

46. On January 11, 2001, Shaw issued a news release over the *Business Wire* in which it announced its financial results for its first 2001 fiscal quarter ended November 30, 2000.

With respect to the results, the release stated, in pertinent part, as follows:

Baton Rouge, Louisiana, January 11, 2001 - *The Shaw Group Inc. (NYSE: SGR) (“Shaw” or “the Company”) today announced a 109% increase in earnings to \$12.2 million, or \$0.31 per diluted share, for the first quarter ended November 30, 2000.* This compares to \$5.8 million in earnings before a change in accounting principle, or \$0.22 per diluted share, for the three months ended November 30, 1999. These results reflect a two for-one common stock split that was effective on December 15, 2000. The Company also announced an increase in sales for the first quarter of fiscal 2001 to \$418.8 million, representing a 178% increase over the prior year’s first quarter sales of \$150.8 million. [. .

J. M. Bernhard, Jr., Shaw’s Chairman, President and Chief Executive Officer, stated, “With solid results posted for the first quarter, we have embarked on another exciting year for our employees, customers and shareholders. Recent events in California’s power market reinforce the urgent need to bring power online quickly and efficiently. We expect to see heightened activity over the next several months as developers finalize project sites, negotiate contracts and move quickly into the construction phase of the project cycle.” [Emphasis added.] . .

47. On January 16, 2001, Shaw filed its Form 10-Q for its first 2001 fiscal quarter with the SEC in which it stated as follows:

The Company acquired a large number of contracts with either inherent losses or lower than market remaining margins primarily due to the effect that the financial difficulties experienced by Stone & Webster had on negotiating and executing the contracts. These contracts were adjusted to their fair value at acquisition date by establishing a liability of approximately \$83,700,000 which will adjust the gross margins recognized on the contracts as the work is performed. The amount of the accrued losses on assumed contracts was approximately \$36,300,000. These adjustments will result in a net reduction of contract costs incurred in future periods. During the quarter ended November 30, 2000, cost of sales was reduced by \$41,114,000 as these reserves were reduced. During the quarter ended November 30, 2000, the Company provided additional contract reserves of approximately \$7,800,000 as adjustments to the fair value of the contracts acquired in the acquisition.

48. On January 16, 2001, Jeffries & Company Research, Inc. issued an update on the Shaw Group that focused on the Company's reported earnings growth. The update was headlined, "Raising Price Target to \$53" and stated, in pertinent part:

Shaw's Earnings Exceed Expectations Again - Shaw reported 1Q01 EPS of \$0.31, better than both our estimate of \$0.27 and the First Call consensus of estimate of \$0.28. SGR's earnings were better than expected as the Company posted increased revenues and significantly stronger margins due to an increase in high-margin fabrication work and a decrease in low-margin construction work.

49. The statements referenced above in ¶¶47-49 were each materially false and misleading when made for the reasons stated in ¶ 46.

50. On April 11, 2001, Shaw issued a news release over the *Business Wire* in which it announced its financial results for its second 2001 fiscal quarter ended February 28, 2001. The release was headlined: "The Shaw Group Announces Solid Results For The Second Quarter Of Fiscal 2001 Backlog Exceeds \$3 Billion." With respect to the results, the release stated, in pertinent part:

Baton Rouge, Louisiana, April 11, 2001 - *The Shaw Group Inc. (NYSE: SGR) ("Shaw" or "the Company") today announced a 68% increase in earnings before an extraordinary item to \$11.8 million, or \$0.28 per diluted share, for the three months ended February 28, 2001.* This compares to earnings of \$7.0 million, or \$0.22 per diluted share, for the three months ended February 29, 2000. Sales increased 97% for the second quarter of fiscal 2001 reaching \$340.3 million, compared to \$173.0 million for the second quarter of fiscal 2000.

"With a backlog exceeding \$3 billion and consistent financial results, we are extremely pleased with our current position," stated J. M. Bernhard, Jr., Shaw's Chairman, President and Chief Executive Officer. "In the tremendously robust market that we are experiencing today, we have the utmost confidence in the success of our business model, and the value that it brings to all of our stakeholders." [Emphasis added.]

51. On April 26, 2001, when the price of Shaw securities was near their class period high, Shaw issued a news release over the *Business Wire* in which it announced that it had entered into an agreement to issue and sell \$377 million of 20-year zero coupon Liquid Yield

Option (TM) Notes (the LYONS). In the release, the Company claimed it had issued the LYONS even though it had no pressing need for funds. In this regard, the release stated:

J.M. Bernhard, Jr., Shaw's Chairman, President and Chief Executive Officer, commented on the issuance of the LYONS. "In selecting LYONS, we decided to capitalize on the strong demand in the convertibles market as an opportunistic borrowing and leverage our strong financial position with relatively inexpensive capital at attractive terms while maintaining conservative financial ratios and a negative cost of carry. We believe it is advantageous to raise capital when market conditions are favorable in anticipation of future opportunities, even though we have no pressing need for the funds."

Merrill Lynch, the initial purchaser of the LYONS, exercised its option to purchase additional LYONS, bringing to \$490 million the net proceeds received by Shaw from the sale of the LYONS, according to the Company's Form 8-K filed with the SEC on May 1, 2001.

52. After the LYONS offering, between May 1, 2001 and June 20, 2001, the Company's share price dropped from \$58 to \$37.10. In response to this decline, and to shore up the Company's share price, on June 20, 2001 the Company issued a news release over the *Business Wire* in which it stated that it expected continued earnings growth. In this regard, the release stated:

The Shaw Group Inc. (NYSE:SGR) ("Shaw") announced today that it knows of no specific reason internal to the Company for the recent decline in stock price over the past several days. ***Additionally, the Company noted continued strength in margins and growing backlog.*** Shaw expects to report third quarter results for 2001 on July 10. For the third quarter as well as the year ended August 31, 2001, the Company remains comfortable with current analysts' estimates for earnings, backlog and margins. [Emphasis added.]

53. On July 10, 2001, the Company issued a news release over the *Business Wire* in which it announced its financial results for the third fiscal quarter ended May 31, 2001. The release was headlined: "The Shaw Group Announces Record Results for the Third Quarter of Fiscal 2001: Backlog exceeds \$3.6 billion" and, with respect to earnings, stated as follows:

Baton Rouge, Louisiana, July 10, 2001- The Shaw Group Inc. (NYSE: SGR) (“Shaw” or “the Company”) today announced a 142% increase in earnings to \$17.9 million, or \$0.42 per diluted share, for the three months ended May 31, 2001. This compares to earnings of \$7.4 million, or \$0.23 per diluted share, for the three months ended May 31, 2000. Third quarter fiscal 2001 sales increased 125% reaching \$394 million, compared to \$175 million for the third quarter of fiscal 2000. [. . .]

For the nine months ended May 31, 2001, the Company reported an increase in earnings before an extraordinary item to \$41.9 million, or \$1.00 per diluted share. This compares to earnings before a change in accounting principle of \$20.2 million, or \$0.67 per diluted share, for the nine months ended May 31, 2000. Sales for the nine months ended May 31, 2001 increased 131% to \$1.2 billion, compared to \$499 million in sales for the nine months ended May 31, 2000. [Emphasis added.]

54. On July 16, 2001, the Company filed its Form 10-Q with the SEC in which it repeated the financial results set forth above and stated the following with respect to contract reserves:

The Company acquired a large number of contracts with either inherent losses or lower than market remaining margins primarily because Stone & Webster’s financial difficulties had negatively affected the negotiation and execution of the contracts. These contracts were adjusted to their fair value at acquisition date and a liability (gross margin reserve) of approximately \$83,700,000 was established. This reserve is utilized to adjust the gross margins recognized on the contracts as the work is performed. The amount of the accrued losses on assumed contracts was estimated to be approximately \$36,300,000 and a liability (contract loss reserve) of such amount was established at the time of acquisition. These reserves are reduced as work is performed on the contracts and such reduction in the reserves results in a reduction in cost of sales.

These cost of sales reductions increase gross profit. Since August 31, 2000, the Company has further adjusted its initial estimates of these contract reserves. This includes adjustments made during the third quarter to reduce the reserves established for anticipated cash losses on one project and increase the reserves related to gross margin adjustments for certain projects based on the amount and timing of the future cash contract costs related to these projects. These adjustments, as well as the decreases in the cost of sales for the periods indicated, are as follows (in thousands):

	March 1, 2001 Balance	Reserve Increase (Decrease)	Cost of Sales (Decrease)	May 31, 2001 Balance
<u>Three Months ended May 31, 2001</u>				
Gross margin reserves	\$ 54,007	\$ 12,631	\$ (13,550)	\$ 53,088
Contract loss reserves	36,134	(15,166)	(4,146)	16,822
Total	\$ 90,141	\$ (2,535)	\$ (17,696)	\$ 69,910

	September 1, 2000 Balance	Reserve Increase	Cost of Sales (Decrease)	May 31, 2001 Balance
<u>Three Months ended May 31, 2001</u>				
Gross margin reserves	\$ 75,764	\$ 38,118	\$ (60,794)	\$ 53,088
Contract loss reserves	30,725	11,144	(25,047)	16,822
Total	\$ 106,489	\$ 49,262	\$ (85,841)	\$ 69,910

55. The statements referenced above in ¶¶51-55 were each materially false and misleading when made for the reasons stated in ¶46.

56. On September 5, 2001, Shaw issued a news release over the *Business Wire* in which it announced that it expected diluted earnings per share for its fiscal year ending August 31, 2002 to be in the range of \$2.15 to \$2.25, exceeding the then-current First Call consensus estimate of \$1.83 per diluted share, and reaffirmed its “comfort” with analysts’ First Call earnings consensus estimate of \$0.44 per diluted share for the fourth quarter of fiscal 2001.

57. On October 9, 2001, the Company issued a news release over the *Business Wire* in which it announced its financial results for the fourth quarter and 2001 fiscal year ended August 31, 2001. The release was headlined: “The Shaw Group Inc. Announces Record Results for Fiscal Year 2001: Backlog Reaches \$4.5 billion.” With respect to earnings, the release stated, in pertinent part:

Baton Rouge, Louisiana, October 9, 2001 - The Shaw Group Inc. (NYSE: SGR) (“Shaw” or “the Company”) today announced an 89% increase in earnings to \$19.3 million, or \$0.45 per diluted share, for the three months ended August 31, 2001. This compares to earnings of \$10.2 million, or \$0.30 per diluted share,

before an extraordinary item, for the three months ended August 31, 2000. Fourth quarter fiscal 2001 sales increased 46%, reaching \$385.7 million, compared to \$263.8 million for the fourth quarter of fiscal 2000.

For the year ended August 31, 2001, the Company reported a 101% increase in earnings to \$61.2 million, or \$1.46 per diluted share, before an extraordinary item. This compares to earnings of \$30.4 million, or \$0.99 per diluted share, before an extraordinary item and cumulative accounting change, for the year ended August 31, 2000. Sales for the year ended August 31, 2001 increased 102% to \$1.5 billion, compared to \$763 million in sales for the year ended August 31, 2000. [. . .]

This has been an extraordinary year of achievement and growth for our Company,” stated J. M. Bernhard, Jr., Shaw’s Chairman, President and Chief Executive Officer. “Our employees are to be commended for their success in placing us in a position to win. Beyond our record financial results, we are very pleased with the relationships we have formed with our customers and we are confident that they will provide a means for increasing shareholder value as they continue to develop and unfold over the next year.”

58. On November 29, 2001, the Company filed its Form 10-K with the SEC in which it repeated its previously released financial results. With respect to contract reserves, the Form 10-K stated, in pertinent part, as follows:

Additionally, the Company acquired a large number of contracts in the Stone & Webster acquisition with either inherent losses or lower than market rate margins due to the effect of the financial difficulties experienced by Stone & Webster on negotiating and executing contracts prior to the acquisition. These contracts were adjusted to their fair value at acquisition date by establishing a gross margin reserve that reduces costs of sales for contracts as they are completed. Costs of sales was reduced by approximately \$70.1 million during fiscal 2001 through the utilization of this reserve, which is a non-cash component of income. Costs of sales was also reduced by approximately \$29.2 million due to the utilization of the reserve which represents net cash losses on contracts acquired in the Stone & Webster acquisition. The utilization of these reserves resulted in a corresponding increase in gross profit during fiscal 2001. See Note 3 of Notes to Consolidated Financial Statements. [. . .]

The Company acquired a large number of contracts with either inherent losses or lower than market rate margins primarily because Stone & Webster’s previous financial difficulties had negatively affected the negotiation and execution of the contracts. These contracts were adjusted to their estimated fair value at acquisition date (July 14, 2000) and a liability (gross margin reserve) of \$121,815,000 was established, including adjustments of \$38,118,000 recorded during the one-year allocation period. The adjustment during the allocation period resulted from a

more accurate determination of the actual contract status at acquisition date. The amount of the accrued future cash losses on assumed contracts with inherent losses (contract loss reserve) was estimated to be approximately \$41,700,000 (including adjustments totaling approximately \$5,400,000 recorded during the allocation period), and a liability of such amount was established. Both reserves are reduced as work is performed on the contracts and such reduction in the reserves results in a reduction in cost of sales and a corresponding increase in gross profit. Goodwill and deferred tax assets for the Stone & Webster acquisition were adjusted by \$43,518,000 due to the revisions to the original reserve estimates identified during the allocation period. These reserves and adjustments during the allocation period, as well as the decreases in the cost of sales for the periods indicated, are as follows (in thousands):

	July 14, 2000 <u>Balance</u>	Reserve <u>Increase</u>	Cost of Sales <u>(Decrease)</u>	August 31, 2000 <u>Balance</u>
<u>Year ended August 31, 2000</u>				
Gross margin reserves	\$ 83,697	\$ --	\$ (7,933)	\$ 75,764
Contract loss reserves	<u>36,300</u>	<u>--</u>	<u>(5,575)</u>	<u>30,725</u>
Total	<u>\$ 119,997</u>	<u>\$ --</u>	<u>\$ (13,508)</u>	<u>\$ 106,489</u>

	September 1, 2001 <u>Balance</u>	Reserve <u>Increase</u>	Cost of Sales <u>(Decrease)</u>	August 31, 2001 <u>Balance</u>
<u>Year ended August 31, 2001</u>				
Gross margin reserves	\$ 75,764	\$ 38,118	\$ (60,794)	\$ 53,088
Contract loss reserves	<u>30,725</u>	<u>(11,144)</u>	<u>(25,047)</u>	<u>16,822</u>
Total	<u>\$ 106,489</u>	<u>\$ 49,262</u>	<u>\$ (85,841)</u>	<u>\$ 69,910</u>

59. The statements referenced above in ¶¶57-59 were each materially false and misleading when made for the reasons set forth in ¶46 and for the additional reason that the contract adjustments referenced in ¶59 during the allocation period did not result from “a more accurate determination of the actual contract status at acquisition date,” but rather was determined solely by defendants’ strategy for the improper management of reported earnings.

60. Between December 7, 2001 and December 12, 2001, the price of Shaw shares fell from \$27.50 to as low as \$20. The Company immediately thereafter issued a news release over the *Business Wire* to shore up its share price in which it announced that it had suffered no deterioration in its current business or backlog that would account for the recent decline in the stock price and that the Company remained “comfortable” with current analysts’ estimates for earnings, backlog and margins for fiscal years 2002 and 2003.

61. On January 14, 2002, the Company issued a news release over the *Business Wire* in which it announced its financial results for its fiscal year 2002 first quarter ended November 30, 2001. The release was headlined: “The Shaw Group, Inc. Announces Increases In Sales and Earnings for the First Quarter of Fiscal 2002.” With respect to earnings, the release stated, in pertinent part, as follows:

Baton Rouge, Louisiana, January 14, 2002 - The Shaw Group Inc. (NYSE: SGR) (“Shaw” or “the Company”) today announced a 56% increase in earnings to \$19.0 million, or \$0.45 per diluted share, for the first quarter ended November 30, 2001. This compares to \$12.2 million in earnings, or \$0.31 per diluted share, for the three months ended November 30, 2000. The Company also announced an increase in sales for the first quarter of fiscal 2002 to \$453.6 million, representing an 8% increase over the prior year’s first quarter sales of \$418.8 million. [. . .]

“The results of the first quarter are impressive given the events which occurred in September and the negativity that has saturated the power generation industry over the past several months,” stated J. M. Bernhard, Jr., Shaw’s Chairman, President and Chief Executive Officer. “***We are confident that the need for additional power plants remains and that our customers will continue with their building plans.*** Furthermore, with the Company’s diversity in other markets, such as process and environmental and infrastructure, Shaw is positioned to quickly capitalize on new opportunities.” [Emphasis added.]

62. The financial results were repeated in the Company’s Form 10-Q, also filed on January 14, 2002, which stated in pertinent part, with respect to margin reserve utilization:

The Company acquired a large number of contracts with either inherent losses or lower than market rate margins primarily because Stone & Webster’s previous financial difficulties had negatively affected the negotiation and execution of the contracts. These contracts were adjusted to their estimated fair value as of

acquisition date (July 14, 2000) and a liability (gross margin reserve) of \$121,815,000 was established, including adjustments of \$38,118,000 recorded during the allocation period. The amount of the accrued future cash losses on assumed contracts with inherent losses (contract loss reserve) was estimated to be approximately \$41,700,000 (including approximately \$5,400,000 of allocation period adjustments), and a liability of such amount was established. The adjustments to these reserves during the allocation period resulted from a more accurate determination of the actual contract status at acquisition date. Commencing with the initial recording of these reserves in the year ended August 31, 2000, the reserves have been reduced as work is performed on the contracts and such reduction in the reserve balances results in a reduction in cost of sales and a corresponding increase in gross profit. The reserve adjustments as well as the decreases in the cost of sales for the periods indicated, are as follows (in thousands):

	September 1, 2000 <u>Balance</u>	Reserve <u>Increase</u>	Cost of Sales <u>(Decrease)</u>	Nov. 30, 2001 <u>Balance</u>
<u>Three Months Ended Nov. 30, 2001</u>				
Gross margin reserves	\$ 43,801	\$ --	\$ (8,058)	\$ 35,743
Contract loss reserves	<u>6,906</u>	<u>--</u>	<u>(1,203)</u>	<u>5,703</u>
Total	<u>\$ 50,707</u>	<u>\$ --</u>	<u>\$ (9,261)</u>	<u>\$ 41,446</u>
	September 1, 2001 <u>Balance</u>	Reserve <u>Increase</u>	Cost of Sales <u>(Decrease)</u>	August 31, 2001 <u>Balance</u>
<u>Year ended August 31, 2001</u>				
Gross margin reserves	\$ 75,764	\$ 38,118	\$ (70,081)	\$ 43,801
Contract loss reserves	\$ 30,725	\$ 5,400	\$ (29,219)	\$ 6,906
Total	<u>\$ 106,489</u>	<u>\$ 43,518</u>	<u>\$ (99,300)</u>	<u>\$ 50,707</u>

63. On January 16, 2002, the Company issues a news release over the *Business Wire* in which announced that it had signed a letter of intent to acquire all of the assets and businesses of The IT Group, a provider of diversified, value-added consulting, engineering and construction and remediation and facilities management services, for a cash and stock.

64. On April 15, 2002, the Company issued a news release over the *Business Wire* in which it announced its financial results for its fiscal year 2002 second quarter ended February 28, 2002. The release was headlined: “The Shaw Group Inc. Announces Increases In Sales And Earnings For The Second Quarter of Fiscal 2002” and stated, in pertinent part, as follows:

Baton Rouge, Louisiana, April 15, 2002 - The Shaw Group Inc. (NYSE: SGR) (“Shaw” or “the Company”) today announced an 81% increase in earnings to \$21.3 million, or \$0.51 per diluted share, for the second quarter ended February 28, 2002. This compares to earnings before an extraordinary item of \$11.8 million, or \$0.28 per diluted share, for the three months ended February 28, 2001. The Company also announced an increase in sales for the second quarter of fiscal 2002 to \$566.2 million, representing a 66% increase over the prior year’s second quarter sales of \$340.3 million. [. . .]

“Our results for the first six months of fiscal 2002 position us for another record year,” stated J. M. Bernhard, Jr., Shaw’s Chairman, President and Chief Executive Officer. “Our backlog remains firm, and upon the successful completion of the acquisition of The IT Group, we look forward to a major expansion into the environmental, infrastructure and homeland security sector that will diversify our business and bring even greater certainty to our growth going forward.”

For the six months ended February 28, 2002, the Company reported a 68% increase in earnings to \$40.3 million, or \$0.95 per diluted share. This compares to earnings before an extraordinary item of \$24.0 million, or \$0.58 per diluted share, for the six months ended February 28, 2001. Sales for the six months ended February 28, 2002 increased 34% to \$1.0 billion, compared to \$759.0 million in sales for the six months ended February 28, 2001.

65. On April 23, 2002, the Company issued a release over the *Business Wire* in which it announced that it had received bankruptcy court approval to acquire The IT Group and that in conjunction with the acquisition of The IT Group, the Company expected to issue approximately 1.8 to 2.5 million shares of its common stock. To further bolster the price of its stock, in anticipation of The IT Group acquisition, the Company revised its guidance for earnings per share for its fiscal year ending August 31, 2002 to increase in the range of \$0.05 to \$0.08, from its previous guidance of \$2.15 to \$2.25 per diluted share. The Company revised its earnings per

share guidance for fiscal 2003 to increase in the range of \$0.25 to \$0.33 from its previous guidance of \$2.65 to \$2.85 per diluted share.

66. On May 3, 2002, the Company issued a release over the *Business Wire* in which it announced that it had completed the acquisition of substantially all of the assets of The IT Group in exchange for approximately \$52.5 million in cash, approximately 1.67 million shares of Shaw common stock, and the assumption of certain liabilities.

67. On July 11, 2002, the Company issued a news release over the *Business Wire* in which it announced its financial results for its fiscal year 2002 third quarter ended May 31, 2002. The release was headlined: The Shaw Group Announces Solid Results for the Third Quarter of Fiscal 2002 and stated, in pertinent part, as follows:

Baton Rouge, Louisiana, July 11, 2002 - The Shaw Group Inc. (NYSE: SGR) ("Shaw" or "the Company") today announced a 49% increase in earnings to \$26.7 million, or \$0.61 per diluted share, for the three months ended May 31, 2002. This compares to earnings of \$17.9 million, or \$0.42 per diluted share, for the three months ended May 31, 2001. Third quarter fiscal 2002 sales increased 129% reaching \$902.6 million, compared to \$394.2 million for the third quarter of fiscal 2001.

"We are very pleased to report solid financial results on a consistent basis," stated J. M. Bernhard, Jr., Shaw's Chairman, President and Chief Executive Officer. "Our strong balance sheet, project execution skills and ongoing strategy to diversify our portfolio of work have all played a key role in allowing Shaw to maintain its track record of growth.

Additionally, the integration of our newly acquired assets in the environmental & infrastructure sector is progressing better than expected. We look for this division to be a major contributor to our success going forward."

For the nine months ended May 31, 2002, the Company reported an increase in earnings to \$67.0 million, or \$1.56 per diluted share. This compares to earnings of \$41.7 million, or \$1.00 per diluted share, for the nine months ended May 31, 2001. Sales for the nine months ended May 31, 2002 increased 67% to \$1.9 billion, compared to \$1.2 billion in sales for the nine months ended May 31, 2001.

68. The statements referenced above in ¶¶61-68 were each materially false and misleading when made for the reasons set forth in ¶¶46 and 60 and for the additional reason that

the contract adjustments referenced in ¶63 did not result from “a more accurate determination of the actual contract status at acquisition date,” but rather was determined solely by defendants’ strategy for the improper management of reported earnings.

69. On August 5, 2002, the Company issued a news release over the *Business Wire* in which it disclosed that the Company had been in discussions with NRG Energy, Inc. (“NRG”) with respect to NRG’s ability to make a \$32 million milestone payment on the required date of August 4, 2002 on the \$340 million LSP-Pike Energy, LLC (“Pike”) electric power plant project, and that NRG would not make the next scheduled payment. The release further stated that NRG and the Company had reached an agreement for Shaw to acquire substantially all the assets of NRG in exchange for forgiveness of current sums owed the Company, and the payment of \$43 million by Shaw to NRG. However, the agreement was subject to the approval of NRG’s parent Company, Xcel Energy, and certain of NRG’s lenders. On this news, the price of Shaw’s shares dropped by 26% from a closing price of \$21.76 on August 2, 2002 to a low of \$16.02 on August 5, 2002, the next trading day.

70. On October 14, 2002, the Company issued a release over *Business Wire* in which it announced a 61% increase in earnings to \$98.4 million, or \$2.26 per diluted share, compared to earnings of \$61.0 million, or \$1.46 per diluted share for the year ended August 31, 2001, and a 106% increase in revenue to \$3.2 billion, compared to \$1.5 billion in revenue for the year ended August 31, 2001. However, recognizing that its gross margin and contract loss reserves were being depleted, such that the Company would no longer be able to rely on them to bolster earnings, Shaw slashed its 2003 earnings estimate from \$2.90 to \$3.18 per share to \$1.92 to \$2.08 per share. In the release, defendants claimed that Shaw’s balance sheet was strong and that the reduced earnings guidance resulted from a “downturn in the power generation market.”

"Our strong balance sheet and project execution skills have allowed us to produce record results for another fiscal year," stated J. M. Bernhard, Jr., Shaw's Chairman, President and Chief Executive Officer. "Shaw's diversified portfolio, including our process and environmental & infrastructure operations, as well as our nuclear and other power services, provides a recurring revenue base and level of stability to our operations going forward." Shaw has completed the repurchase of approximately \$100 million of its common stock, authorized by its Board of Directors on September 14, 2001, totaling approximately 5.3 million shares. This includes approximately 3.2 million shares purchased in the first of quarter of fiscal 2003, 1.0 million shares in the fourth quarter of fiscal 2002 and 1.1 million shares purchased in previous quarters.

To reflect the downturn in the domestic power generation market, including the potential loss of future profits in connection with the LSP-Pike Energy LLC ("Pike") project, and the PG&E National Energy Group ("NEG"), a subsidiary of PG&E Corporation (NYSE: PCG), Harquahala and Covert projects, Shaw is revising its earnings guidance for fiscal year 2003 to a range of \$1.92 to \$2.08 per diluted share, from its previous earnings guidance in the range of \$2.72 to \$3.00 per diluted share. Accordingly, the Company expects revenue to be in the range of \$2.8 to \$2.9 billion for its fiscal year 2003. Previous revenue guidance for fiscal year 2003 was in the range of \$3.3 billion to \$3.8 billion.

71. On November 12, 2002, the Company filed its amended annual report for the fiscal year ended August 31, 2002 in which it reiterated the results announced in its October 14, 2002 news release.

72. On October 16, 2003, the Company issued a news release over the *Business Wire* in which it announced a substantial down turn in earnings. In the release, the Company reported that, for the year ended August 31, 2003, earnings were \$20.9 million, or \$0.54 per diluted share, compared to earnings of \$98.4 million, or \$2.26 per diluted share for the year ended August 31, 2002. Once again, the Company blamed the relatively poor showing on weakness in the power generation market, stating, in this regard, as follows:

"There is no question that the protracted weakness in the power generation market and the subsequent financial instability of some of our energy clients presented challenges never before faced by our company," stated J.M. Bernhard, Jr., Chairman and Chief Executive Officer of The Shaw Group Inc. "However, I am extremely satisfied with the manner in which our organization has responded to these difficulties. We are pleased to report that with the near completion of the NEG projects and our recent settlement with NRG, we have made great strides in

putting these negative issues behind us." Mr. Bernhard continued, "Furthermore, we have kicked off our new fiscal year with several major awards and we are experiencing strong booking and bidding activity, especially for fossil and nuclear power EPC and maintenance work."

On October 20, 2003, the Company filed its annual report for the fiscal year ended August 31, 2003 in which it reiterated the results announced in its October 16, 2003 press release.

73. On April 14, 2004, the Company issued a release over the *Business Wire* in which the Company reported net income of \$2.2 million, or \$0.04 per diluted share, for the second fiscal quarter ended February 29, 2004 compared to a net loss of \$7.9 million, or \$(0.21) per diluted share, for the same period ended February 28, 2003. With respect to projected third-quarter earnings, the Company stated as follows:

Primarily due to delays in the startup of two major EPC projects, the Company also announced that third quarter fiscal 2004 earnings are expected to be at the lower end of the range of its previously issued guidance, approximately \$0.18 per diluted share, while fourth quarter earnings are expected to be below prior guidance, at approximately \$0.28 per diluted share.

74. The statements referenced above in ¶¶71-74 were each materially false and misleading when made as they misrepresented and/or omitted the following adverse facts which then existed and disclosure of which was necessary to make the statements not false and/or misleading, including, but not limited to the fact that:

(a) The Company's steadily declining earnings was not a result solely of the downturn in the domestic power generation market, including the potential loss of future profits in connection with the LSP-Pike Energy LLC ("Pike") project, if at all, but rather, it was also a result of the depletion of the gross margin reserves that the Company had previously used to bolster earnings;

(b) The Company improperly reported revenue and earnings in violation of its purported revenue recognition policy; and

(c) As a result of the improper application of reserves the Company income statements were, at all relevant times, inherently unreliable.

The Truth Emerges

75. After the market closed on June 10, 2004, Shaw issued a news release over the *Business Wire* in which it announced that, on June 1, 2004, it had been notified by the SEC that the SEC was conducting an informal inquiry and, with respect to the scope of the investigation, stated as follows:

The SEC has not advised the Company as to either the reason for the inquiry or its scope. However, the request for information appears to primarily relate to the purchase method of accounting for acquisitions, as presented in Shaw's Form 10-K for the fiscal year ended August 31, 2003.

76. On this news, shares the Company's shares, which had closed at \$12.28 on June 10, 2004, dropped more than 12.4% to close at \$10.75 on June 11, 2004, the day the market opened again after the long weekend, on more than four times normal volume.

Defendants' Financial Statements During The Class Period Were Materially False And Misleading And Violated Gaap

77. At all relevant times during the Class Period, defendants represented that Shaw's financial statements when issued were prepared in conformity with GAAP, which are recognized by the accounting profession and the SEC as the uniform rules, conventions and procedures necessary to define accepted accounting practice at a particular time. However, in order to artificially inflate the price of Shaw's stock, defendants used improper accounting practices in violation of GAAP and SEC reporting requirements to falsely inflate its assets, stockholders' equity and earnings during the Class Period.

78. Shaw's materially false and misleading Financial Statements resulted from a series of deliberate senior management decisions designed to conceal the truth regarding Shaw's

actual operating results. Specifically, as discussed above, defendants caused the Company to violate GAAP by improperly manipulating accounting reserves and by fraudulently accelerating revenues on long-term contracts.

79. GAAP are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time. As set forth in Financial Accounting Standards Board (“FASB”) Statements of Concepts (“Concepts Statement”) No. 1, one of the fundamental objectives of financial reporting is that it provide accurate and reliable information concerning an entity’s financial performance during the period being presented. Concepts Statement No. 1, paragraph 42, states:

Financial reporting should provide information about an enterprise’s financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors’ and creditors’ expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

80. As set forth in SEC Rule 4-01(a) of SEC Regulation S-X, “[f]inancial statements filed with the [SEC] which are not prepared in accordance with [GAAP] will be presumed to be misleading or inaccurate.” 17 C.F.R. § 210.4-01(a)(1). Management is responsible for preparing financial statements that conform with GAAP. As noted by the AICPA professional standards:

financial statements are management’s responsibility . . . [M]anagement is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, record, process, summarize, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements. The entity’s transactions and the related assets, liabilities and equity are within the direct knowledge and control of management . . . Thus, the fair presentation of financial statements in conformity with Generally Accepted Accounting Principles is an implicit and integral part of management’s responsibility.

Shaw’s Fraudulent Manipulation of Reserves

81. Shaw falsely inflated its earnings, during the Class Period, through the release into income of excess or “general” reserves originally established in connection with the Company's purchase acquisitions. Shaw’s use of these reserves violated GAAP and its intentional or reckless use of reserves for this purpose without disclosure was fraudulent.

82. During the Class Period, Shaw completed a series of purchase acquisitions, and, in undertaking these transactions, Shaw recognized as liabilities accrued losses on assumed contracts and gross margin reserves. As a regular part of Shaw's accounting for these business combinations, however, the Shaw Defendants failed to disclose its determination of the actual contract values relative to the contracts’ then current market value.

83. GAAP requires the establishment and accrual of reserves for expenses, losses and liabilities, even though payment of the expense, or realization of the loss, may be contingent upon future events. Pursuant to GAAP:

An estimated loss from a loss contingency . . . shall be accrued by a charge to income if both of the following conditions are met:

- a. Information available prior to the issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements . . . [and]
- b. The amount of loss can be reasonably estimated [footnotes omitted].

Statement of Financial Accounting Standards No. 5 (“FAS No. 5”), *Accounting for Contingencies*, ¶ 8 (Mar. 1975).

84. If the reasonable estimate of a particular loss contingency is a range, an amount shall be accrued for the loss. When some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. When no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued. See FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* (Sept. 1976). If there is at least a reasonable possibility that an additional

loss has been incurred, beyond the amount accrued, disclosure of the nature of the contingency and an estimate of the possible loss or range of loss shall be made. *See* FAS No. 5 ¶ 10.

85. Pursuant to FAS No. 5, companies may establish reserves for identifiable, probable and estimable risks. GAAP specifically forbids the accrual of “general” reserves. *See* FAS No. 5 ¶ 14. Some enterprises have in the past accrued so-called “reserves for general contingencies.” General or unspecified business risks do not meet the conditions for accrual in paragraph 8, and no accrual for loss shall be made.

86. Any reserves that do not meet the accrual requirements of FAS No. 5, when identified, should be immediately released into income. A systematic or timed release of excess reserves into income violates GAAP. In this regard, accounting estimates, including estimates for loss contingencies, may change as new events occur, as more experience is acquired, or as additional information is obtained. A change in an accounting estimate should be accounted for in (a) the period of change if the change affects that period only, or (b) the period of change and future periods if the change affects both. If the effect on income is material, disclosure is recommended for changes in estimates made each period in the ordinary course of accounting. Materiality should be considered in relation to both the effects of each change separately and the combined effect of all changes. *See* APB Opinion No. 20 (“APB 20”), *Accounting Changes* (July 1971).

87. GAAP allow companies undertaking business combinations to account for certain preacquisition contingencies and for liabilities for certain costs associated with a business combination, provided that the contingencies meet certain specified criteria and the costs fall within specific, delineated categories of expenses, are properly planned for, and are properly documented. FAS No. 5; *Accounting for Preacquisition Contingencies of Purchased*

Enterprises, FAS No. 38 (Sept. 1980); and *Business Combinations*, Accounting Principles Bd. Opinion No. 16 (Aug. 1970). In the event that an acquiring entity meets these criteria, GAAP allows the entity to establish appropriate liabilities -- what companies sometimes refer to as "reserves."

88. As discussed above, at Shaw, however, accounting for such liabilities in business combinations went far beyond what GAAP permitted. Acquisitions were viewed in large part as opportunities to ensure the viability of future "earnings." Reserves were established to stockpile future income, and the reserves were subsequently reversed to bring those future earnings to fruition.

Shaw's Fraudulent Acceleration of Revenues on Long-Term Contracts.

89. Shaw, also falsely inflated its earnings by fraudulently accelerating revenues on its long-term contracts. GAAP requires that products must be delivered or services rendered before revenue can be recognized. *See* Concepts Statement No. 5 *Recognition and Measurement in Financial Statements of Business Enterprises* ("Concepts Statement No. 5"); *see also* Staff Accounting Bulletin No. 101 ("SAB 101"), *Revenue Recognition in Financial Statements*, Topic 13, A.1. Revenues are earned when the reporting entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. Revenues are realizable when related assets received or held are readily convertible to known amounts of cash or claims to cash. Concepts Statement No. 5 ¶ 83. If collectibility is not reasonably assured, revenues should be recognized on the basis of cash received. Concepts Statement No. 5 ¶ 84g; *see also* Accounting Research Bulletin No. 43 ("ARB 43"), Ch. 1A, ¶ 1; Accounting Principles Board Opinion No. 10 ("APB 10"). If payment is subject to a significant contingency, revenue recognition is improper. FAS No. 5.

90. More specifically, Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (“SOP 81-1”) and Accounting Research Bulletin No. 45 (“ARB 45”) *Long-Term Construction-Type Contracts*, provide guidance in accounting for long-term construction contracts and for recognizing interim revenues and profits on such contracts that are uncompleted at the end of a period. In this regard, companies estimate the percentage of completion of each contract by the “cost on cost” method, i.e., the percentage of completion is estimated based on a ratio of cost to date divided by the total estimated cost of the contract. SOP 81-1 ¶ 44. This method, which Shaw reported using in its financial statements, uses cost as a proxy for progress. Accordingly, by improperly accelerating costs, defendants improperly accelerated progress on the contract and thus revenues.

91. Shaw’s financial statements filed with the SEC during the Class Period stated the following with respect to the Company’s revenue recognition policy:

For project management, engineering, procurement, and construction services, the Company recognizes revenues under the percentage of completion method measured primarily on contract costs incurred to date, excluding the costs of any purchased but uninstalled materials, compared with total estimated contract costs. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Profit incentives are included in revenues when their realization is reasonably assured.

92. On the basis of the manipulation of revenue recognition alone, the financial statements of Shaw during the Class Period were materially false and misleading as defendants materially overstated the Company’s revenues in violation of GAAP and its own publicly disclosed revenue recognition policies that materially inflated the operating results of the Company, and misrepresented that the Company’s revenue and earnings were continuing to grow.

Additional GAAP Violations

93. As a result of the foregoing, the Defendants caused Shaw's reported financial results to violate, among other things, the following provisions of GAAP for which each Defendant is necessarily responsible:

- a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements (APB No. 28, *Interim Financial Reporting* ¶ 10 (May 1973));
- b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions (FASB Concepts Statement No. 1, ¶ 34);
- c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources (FASB Concepts Statement No. 1, ¶ 40);
- d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Concepts Statement No. 1, ¶ 50);
- f) The principle that financial reporting should be reliable in that it represents what it purports to represent. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information* ¶¶ 58-59 (May 1980));
- g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions (FASB Concepts Statement No. 2, ¶ 79); and
- h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Concepts Statement No. 2, ¶¶ 95, 97).

UNDISCLOSED ADVERSE INFORMATION

94. The market for Shaw's common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Shaw common stock traded at artificially inflated prices during the Class Period. The artificial inflation continued at least until June 10, 2004. Plaintiff and other members of the Class purchased or otherwise acquired Shaw's common stock relying upon the integrity of the market price of the Company's common stock and market information relating to Shaw, and have been damaged thereby.

95. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Shaw common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as detailed herein.

96. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Shaw's earnings. These material misstatements and omissions created in the market an unrealistically positive assessment of Shaw and its prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in plaintiff and other members of the Class purchasing the Company's common stock at artificially

inflated prices, thus leading to their losses when the illusion was revealed, and the market was able to accurately value the Company.

**DEFENDANTS' ISSUANCE OF STOCK AS
TRANSACTION CURRENCY AND INSIDER STOCK SALES**

97. While Shaw's officers and directors were issuing false and misleading statements about Shaw's business, Shaw raised \$490 million through the sale of LYONS at artificially inflated prices and used 1.75 million shares of artificially inflated Shaw common stock as currency to pay, in part, for The IT Group. Such transactions using Shaw stock as currency constitute insider trading on a massive scale.

98. The artificial inflation of Shaw's stock price, which resulted from defendants' materially false and misleading accounting manipulations, also enabled certain Shaw insiders to sell shares of Shaw stock which they owned for total proceeds of \$80,137,607 while in possession of material nonpublic information, and to profit from the artificial inflation of Shaw's stock price defendants' fraud created.

99. As a result of their positions with the Company insiders identified below, including certain of the Individual Defendants, sold the following amounts of Shaw stock at artificially inflated prices during the Class Period while in possession of material non-public information:

Robert Belk: Chief Financial Officer

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
January 16, 2001	35,000.00	41.82	1,463,836.50

James Bernhard: Chairman and Chief Executive Officer

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
July 27, 2001	30,000.00	35.02	1,050,600.00

July 27, 2001	30,000.00	35.02	1,050,600.00
July 26, 2001	75,000.00	33.25	2,493,750.00
July 26, 2001	75,000.00	33.25	2,493,750.00
July 25, 2001	75,000.00	33.75	2,531,250.00
July 25, 2001	75,000.00	33.75	2,531,250.00
July 24, 2001	75,000.00	29.65	2,223,750.00
July 24, 2001	75,000.00	29.65	2,223,750.00
January 18, 2001	570,000.00	42.26	24,087,459.00
January 17, 2001	304,800.00	42.47	12,945,770.40
January 16, 2001	125,200.00	41.69	5,219,462.80
			58,851,392.20

George Bevan: Former Senior Vice President

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
January 22, 2001	1,000.00	42.00	42,000.00
January 16, 2001	4,813.00	40.88	196,731.38
October 23, 2000	4,000.00	91.06	364,250.00
October 20, 2000	5,000.00	82.44	412,187.50
			1,015,168.88

Nelson DuPuy: Former Senior Vice President

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
January 16, 2001	20,000.00	40.00	800,000.00

Richard Gill: Executive Vice President

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
April 16, 2002	20,000.00	30.25	604,956.00
January 17, 2001	40,000.00	42.00	1,680,000.00
			2,284,956.00

L. Lane Grigsby: Board Member

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
January 16, 2001	16,000.00	41.65	666,331.20

David Hoyle: Board Member

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
April 25, 2001	1,000.00	61.45	61,450.00
April 25, 2001	900	61.45	55,305.00
April 25, 2001	100	61.60	6,160.00
January 16, 2001	8,000.00	41.13	329,000.00
			451,915.00

Albert McAlister: Board Member

Date of Sale	# of Shares	Price(\$)/Share	Sale Proceeds(\$)
April 25, 2001	1,000.00	63.00	63,000.00
April 12, 2001	1,800.00	56.78	102,204.00
April 12, 2001	1,200.00	56.84	68,208.00
November 17, 2000	2,800.00	82.50	231,000.00
November 17, 2000	200	81.75	16,350.00
			480,762.00

Mitchell Rayner: Executive Vice President

January 16, 2001	40,000.00	40.51	1,620,272.00
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G. Ray Wilkie: Former Executive Vice President

January 12, 2001	3,500.00	42.88	150,062.50
January 12, 2001	2,500.00	42.50	106,250.00
January 12, 2001	2,400.00	42.75	102,600.00
January 12, 2001	2,000.00	42.06	84,125.00
January 12, 2001	2,000.00	42.75	85,500.00
January 12, 2001	2,000.00	44.63	89,250.00
January 12, 2001	1,700.00	43.19	73,418.75
January 12, 2001	1,400.00	45.75	64,050.00
January 12, 2001	1,300.00	44.56	57,931.25
January 12, 2001	1,200.00	44.00	52,800.00
January 12, 2001	1,100.00	46.38	51,012.50
January 12, 2001	300	45.69	13,706.25
January 12, 2001	200	45.63	9,125.00
January 12, 2001	100	43.81	4,381.25
January 11, 2001	3,400.00	48.75	165,750.00
January 11, 2001	2,500.00	47.75	119,375.00
January 11, 2001	2,500.00	49.56	123,906.25
January 11, 2001	900	48.75	43,875.00
January 11, 2001	700	49.00	34,300.00

January 10, 2001	2,500.00	44.00	110,000.00
January 10, 2001	2,400.00	43.56	104,550.00
January 10, 2001	100	43.63	4,362.50
January 9, 2001	4,400.00	43.50	191,400.00
January 9, 2001	600	43.56	26,137.50
January 8, 2001	2,500.00	41.94	104,843.75
January 8, 2001	2,500.00	42.00	105,000.00
December 22, 2000	4,700.00	44.00	206,800.00
December 22, 2000	4,500.00	40.50	182,250.00
December 22, 2000	2,500.00	40.13	100,312.50
December 22, 2000	2,500.00	40.44	101,093.75
December 22, 2000	2,500.00	40.44	101,093.75
December 22, 2000	2,500.00	41.00	102,500.00
December 22, 2000	2,500.00	41.25	103,125.00
December 22, 2000	2,500.00	41.50	103,750.00
December 22, 2000	2,500.00	42.00	105,000.00
December 22, 2000	2,500.00	43.00	107,500.00
December 22, 2000	2,200.00	44.13	97,075.00
December 22, 2000	2,000.00	40.25	80,500.00
December 22, 2000	1,500.00	43.19	64,781.25
December 22, 2000	1,000.00	43.38	43,375.00
December 22, 2000	500	40.63	20,312.50
December 22, 2000	500	40.75	20,375.00
December 22, 2000	300	44.50	13,350.00
December 22, 2000	200	43.63	8,725.50
December 21, 2000	7,500.00	38.38	287,812.50
December 21, 2000	5,000.00	39.00	195,000.00
December 21, 2000	5,000.00	39.06	195,312.50
December 21, 2000	3,500.00	38.44	134,531.25
December 21, 2000	2,500.00	38.25	95,625.00
December 21, 2000	2,500.00	38.56	96,406.25
December 21, 2000	2,300.00	37.63	86,543.25
December 21, 2000	2,000.00	39.25	78,500.00
December 21, 2000	2,000.00	39.31	78,625.00
December 21, 2000	1,300.00	38.50	50,050.00
December 21, 2000	500	39.38	19,687.50
December 21, 2000	500	39.44	19,718.75
December 21, 2000	200	37.88	7,575.00
December 21, 2000	200	38.75	7,750.00
December 20, 2000	7,500.00	39.25	294,375.00
December 20, 2000	4,800.00	39.44	189,300.00
December 20, 2000	4,500.00	39.00	175,500.00
December 20, 2000	3,700.00	39.69	146,843.75
December 20, 2000	3,300.00	39.50	130,350.00
December 20, 2000	2,400.00	40.00	96,000.00
December 20, 2000	1,900.00	39.31	74,693.75
December 20, 2000	500	39.06	19,531.25
December 20, 2000	500	39.88	19,937.50
December 20, 2000	400	39.38	15,750.00
December 20, 2000	300	39.63	11,887.50

December 20, 2000	200	39.56	7,912.50
October 27, 2000	3,900.00	81.50	317,850.00
October 27, 2000	1,000.00	81.81	81,812.50
October 26, 2000	100	80.00	8,000.00
October 25, 2000	5,000.00	87.00	435,000.00
October 23, 2000	5,500.00	85.38	469,562.50
October 23, 2000	5,000.00	90.00	450,000.00
October 23, 2000	4,800.00	87.00	417,600.00
October 23, 2000	1,500.00	85.38	128,062.50
October 23, 2000	200	87.13	17,425.00
October 20, 2000	25,000.00	85.31	2,132,812.50
October 20, 2000	22,000.00	85.00	1,870,000.00
			12,502,975.00

TOTAL SALES PROCEEDS: \$80,137,608.78

**Applicability Of Presumption Of Reliance:
Fraud-On-The-Market Doctrine**

100. At all relevant times, the market for Shaw' securities was an efficient market for the following reasons, among others:

- (a) Shaw common stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;
- (b) As a regulated issuer, Shaw filed periodic public reports with the SEC and the NYSE;
- (c) Shaw regularly communicated with public investors *via* established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and
- (d) Shaw was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain

customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

101. As a result of the foregoing, the market for Shaw securities promptly digested current information regarding Shaw from all publicly available sources and reflected such information in the price of Shaw stock. Under these circumstances, all purchasers of Shaw securities during the Class Period suffered similar injury through their purchase of Shaw securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

102. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Shaw who knew that those statements were false when made.

FIRST CLAIM

Violation Of Section 10(B) Of The Exchange Act Against And Rule 10b-5 Promulgated Thereunder Against All Defendants

103. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

104. During the Class Period, Shaw and the Individual Defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Shaw securities; (iii) enable defendants to sell thousands of shares of Shaw stock at artificially prices for proceeds of hundreds of millions of dollars; and (iv) cause plaintiff and other members of the Class to purchase Shaw securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

105. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Shaw securities in violation of Section 10(b) of the Exchange Act and Rule 10(b) -5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

106. In addition to the duties of full disclosure imposed on defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated

disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. Sections 210.01 *et seq.*) and Regulation S-K (17 C.F.R. Sections 229.10 *et seq.*) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition and earnings so that the market price of the Company's securities would be based on truthful, complete and accurate information.

107. Shaw and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Shaw as specified herein.

108. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information, and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Shaw's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Shaw and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Shaw securities during the Class Period.

109. The Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period; (ii) the Individual Defendants were privy to and participated in the creation, development and reporting of the Company's internal budgets,

plans, projections and/or reports; and (iii) the Individual Defendants were aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

110. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Shaw's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

111. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Shaw securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Shaw publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiff and the other members of the Class acquired Shaw securities during the Class Period at artificially high prices and were damaged thereby.

112. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the other members of the Class and the marketplace known of the true financial condition and business prospects of Shaw, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their Shaw securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

113. By virtue of the foregoing, defendants have violated Section 10(B) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

114. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM

Violation Of Section 20(a) Of The Exchange Act Against The Individual Defendants

115. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

116. The Individual Defendants acted as a controlling person of Shaw within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of his high-level positions, and his ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which plaintiff

contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

117. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

118. As set forth above, Shaw and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their position each as a controlling person, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Shaw's and the Individual Defendants' wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating plaintiff as lead plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiffs counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: June 16, 2004

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Counsel for Plaintiff

**CERTIFICATION OF EARL THOMPSON
IN SUPPORT OF CLASS ACTION COMPLAINT**

Earl Thompson ("plaintiff") declares, as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint prepared by counsel and has authorized its filing.
2. Plaintiff did not purchase the security that is the subject of the complaint at the direction of plaintiffs' counsel or in order to participate in any private action arising under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.
4. During the proposed Class Period, plaintiff executed the following transactions relating to The Shaw Group Inc.:

Purchase of 100 shares at \$13 3/8 per share on 10/29/03
5. In the past three years, plaintiff has not sought to serve as a representative party on behalf of a class in an action filed under the federal securities laws.
6. Plaintiff will not accept any payment for serving as a representative party on behalf of a class beyond plaintiff's pro rata share of any recovery, except such reasonable costs

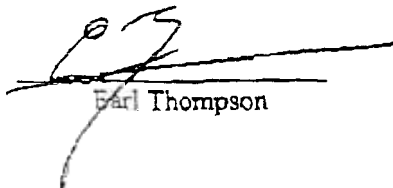
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and expenses (including lost wages) directly relating to the representation of the Class as ordered or approved by the Court.

The foregoing are, to the best of my knowledge and belief, true and correct statements.

June 15, 2004



Earl Thompson