

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF LOUISIANA**

FREDERICK HUSAR, On Behalf of Himself)	Civ. No.
and All Others Similarly Situated,)	
)	<u>CLASS ACTION</u>
Plaintiff,)	
)	COMPLAINT FOR VIOLATION OF
vs.)	THE FEDERAL SECURITIES LAWS
)	
THE SHAW GROUP, INC., TIM BARFIELD,)	
JR., J.M. BERNHARD, JR., RICHARD F. GILL)	<u>DEMAND FOR JURY TRIAL</u>
and ROBERT BELK)	
)	
Defendants.)	

Plaintiff has alleged the following based upon the investigation of plaintiffs 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”). Shaw provides products and services to the power generation industry.

2. Before and during the Class Period, Shaw acquired two companies that were in the midst of bankruptcy proceedings, Stone & Webster and The IT Group. The Company stated

that, as a result of the financial difficulties Stone & Webster was previously experiencing while negotiating its contracts, Shaw had acquired from Stone & Webster a large number of contracts with either inherent losses or lower-than-market remaining profit margins. The Company stated that it had “adjusted” those contracts to their fair value during the acquisition 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. Similarly, Shaw added \$36.4 million to its gross margin reserve account purportedly for adjustments to below-market value contracts held by The IT Group on the acquisition.

3. In reality, the defendants caused Shaw to establish those reserves so that the Company could draw from them to artificially boost its earnings when needed, and in order to meet Wall Street expectations and successfully issue hundreds of millions of dollars of securities to the public.

4. During the Class Period, the defendants caused Shaw to issue false and misleading statements concerning the Company’s financial condition. Specifically, the Defendants failed to disclose to the public that (a) the Company’s reserves were not based on a reasonable fair-market valuation of the contracts acquired from The IT Group and Stone & Webster, and (b) defendants were causing the Company to draw on those reserves in order to artificially inflate its publicly reported earnings. As a result of defendants’ false and misleading statements during the Class Period, the price of the Company’s securities was artificially inflated when Plaintiff and other class members purchased them.

5. During the Class Period, company insiders sold approximately 1.94 million of their personal shares in the Company for proceeds of approximately \$80 million. Also during the Class

Period, the Company offered \$479 million in company shares to the public, as well as millions of dollars of debt securities.

6. After the close of trading on Friday, June 10, 2004, the Company announced that the SEC had begun an informal investigation on the Company's method of accounting for acquisitions. On this news, the Company's share price plunged from \$12.28 to \$10.05, or 18% on heavy trading volume, and has continued to drop since then.

JURISDICTION AND VENUE

7. 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].

8. 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].

9. 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.

10. 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

11. Plaintiff Frederick Husar, as set forth in the accompanying certification, purchased the common stock of Shaw at artificially inflated prices during the Class Period and has been damaged thereby.

12. 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.”

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

14. 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.

15. 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.

16. 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.

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

SCIENTER

18. During the Class Period, each of the Individual Defendants were privy to non-public information concerning the Company’s acquisition accounting, establishment and use of reserves, finances, 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.

19. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the defendant officers and/or directors of Shaw, by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. The Individual Defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein. The Individual Defendants were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

20. As officers and controlling persons of a publicly-held company whose securities were and are registered with the SEC pursuant to the Exchange Act, and was traded on the New York Stock Exchange and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate accurate and truthful information promptly with respect to the Company's financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue,

so that the market price of the Company's publicly traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

21. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

22. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Shaw securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme (i) deceived the investing public regarding Shaw business, operations, management and the intrinsic value of Shaw securities; (ii) benefited company insiders to the detriment of company shareholders; and (iii) caused Plaintiff and other members of the Class to purchase Shaw securities at artificially inflated prices.

23. In knowing or reckless disregard of the truth, defendants issued and/or participated in the issuance of materially false and misleading statements to the investing public, as particularized above, including:

a. The Press Releases, as identified below, which the Individual Defendants caused the Company to file and issue during the Class Period, (collectively the "Class Period Press Releases"), contained fraudulent financial manipulations which deceived the investing public who purchased Shaw securities based upon those representations. The Class

Period Press Releases contained information which misrepresented Shaw's financials and business prospects, including its reported revenues and earnings.

b. The quarterly reports (Form 10-Q's) and the annual report (Form 10-K) filed with the SEC during the Class Period (collectively the "Class Period SEC Filings"), as described herein, which the Individual Defendants caused the Company to file and issue during the Class Period, were intended to and did deceive the investing public who purchased Shaw securities based upon those representations.

24. During the Class Period, and while defendants were causing the Company to issue the false and misleading statements outlined herein, company insiders sold approximately 1.94 million of their personal shares in the Company for proceeds of approximately \$80 million. Also during the Class Period, the Company offered approximately \$1.3 billion in bonds to the public, and acquired several companies worth billions of dollars based on the price of Shaw's stock.

CLASS ACTION ALLEGATIONS

25. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons who purchased Shaw common stock during the period October 19, 2000 and June 10, 2004 inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are the Company, its officers and directors, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns, and any entity in which the Company has a controlling interest or of which the Company is a parent or subsidiary.

26. The members of the Class are located in geographically diverse areas and are so numerous that joinder of all members is impractical. The Company has almost 38 million shares of stock outstanding. While the exact number of Class members is unknown to the plaintiff at this

time, and can only be ascertained through appropriate discovery, plaintiff believes there are, at a minimum, hundreds of thousands of members of the Class.

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

- a. Whether defendants engaged in acts or conduct in violation of the federal securities laws as alleged herein;
- b. Whether defendants had a duty to disclose certain information;
- c. Whether defendants knowingly or recklessly in making materially false and misleading statements or in failing to correct such statements upon learning that they were materially false and misleading during the Class Period;
- d. Whether the market price of the Company's common stock during the Class Period was artificially inflated because of defendants' conduct complained of herein; and
- e. Whether members of the Class have sustained damages and, if so, the proper measure of damages.

28. Plaintiff's claims are typical of the claims of the members of the Class because plaintiff and members of the Class sustained damages arising out of defendants' wrongful conduct in violation of federal law as complained of herein.

29. 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.

Plaintiff has no interests antagonistic to or in conflict with those of the Class.

30. A class action is superior to other available methods for the fair and efficient adjudication of this controversy since joinder of all members of the Class is impractical.

Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

Fraud on the Market Presumption

31. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- a. Defendants made public misrepresentations or failed to disclose material facts regarding Shaw's financial situation during the Class Period;
- b. the omissions and misrepresentations were material;
- c. the securities of the Company were actively traded at all relevant times on the New York Stock Exchange, an efficient and open market;
- d. the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- e. Plaintiff and the members of the Class, without knowledge of the misrepresented facts, purchased their Shaw securities between the time defendants failed to disclose and/or misrepresented material facts and the time the truth was disclosed.

32. Shaw trades on the New York Stock Exchange. The price of Shaw's stock reflects the effect of news disseminated in the market.

33. Based upon the foregoing, plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market

The Safe Harbor Provision is Inapplicable

34. 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. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward-looking, they were not adequately identified as “forward-looking statements” when made, and 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 is intended to 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 had actual knowledge that the particular forward-looking statement was materially false or misleading, 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.

SUBSTANTIVE ALLEGATIONS

35. On July 7, 2000, Shaw announced that it was acquiring Stone & Webster, a company in the midst of Chapter 11 bankruptcy reorganization, for 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.

36. The Class Period begins on October 19, 2000, on which date the Company announced its financial results for the fourth quarter and fiscal year ended August 31, 2000. The Company reported fourth 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. Defendant Bernhard further 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.”

37. 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 its previously announced results. 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. 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.” Shaw did not disclose the method by which it arrived at this determination.

38. On January 11, 2001, Shaw 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.

39. Defendant Bernhard further 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.”

40. 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.

41. On April 11, 2001, the Company announced its financial results for its second 2001 fiscal quarter ended February 28, 2001. The Company 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.

42. Defendant Bernhard further stated:

“With a backlog exceeding \$3 billion and consistent financial results, we are extremely pleased with our current position. 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.”

43. On April 26, 2001, when the Company's shares were trading at \$58.35, Shaw announced that it was selling \$377 million of 20-year zero coupon Liquid Yield Option (TM)

Notes (the LYONS). Defendant Bernhard stated:

"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."

44. Between May 1, 2001 and June 20, 2001, the Company's share price dropped from \$58 to \$37.10. In response the Company announced:

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.

45. On July 10, 2001, the Company announced its financial results for the third fiscal quarter ended May 31, 2001. The Company stated:

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.

46. On July 16, 2001, the Company filed its Form 10-Q with the SEC in which it confirmed the financial results previously announced, and further stated:

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....

47. On September 5, 2001, Shaw announced 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.

48. On October 9, 2001, the Company announced its financial results for the fourth quarter and 2001 fiscal year ended August 31, 2001. The Company 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....

49. Defendant Bernhard further stated:

“This has been an extraordinary year of achievement and growth for our Company. 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.”

50. On November 29, 2001, the Company filed its Form 10-K with the SEC in which it confirmed its previously announced results. With respect to contract reserves, the Company 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....

51. 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 issued a news release comfort investors and maintain its share price, stating 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.

52. On January 14, 2002, the Company announced its financial results for its fiscal year 2002 first quarter ended November 30, 2001. The Company 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. [...]

53. Defendant Bernhard further stated:

“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. 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.”

54. The financial results were confirmed 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....

55. On January 16, 2002, the Company 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.

56. On April 15, 2002, the Company announced its financial results for its fiscal year 2002 second quarter ended February 28, 2002, stating:

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.

57. On April 23, 2002, the Company 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.

58. In May 2002, Shaw announced it had acquired substantially all of the operating assets of The IT Group, which was also in the middle of Chapter 11 bankruptcy proceedings at the time of the acquisition. 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 by the Company.

59. 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. 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.

60. On July 11, 2002, the Company announced its financial results for its fiscal year 2002 third quarter ended May 31, 2002, stating:

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.

61. On October 14, 2002, the Company 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. 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.

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

63. On October 16, 2003, the Company announced a substantial decrease 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. The Company blamed the relatively poor showing on weakness in the power generation market, stating:

“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 confirmed the results announced in its October 16, 2003 press release.

64. On April 14, 2004, 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.

65. All of the above statements were false and misleading because they failed to disclose that: (a) the Company's reserves were not based on a reasonable fair-market valuation of the contracts acquired from The IT Group and Stone & Webster, and (b) defendants were causing the Company to draw on those reserves in order to artificially inflate its publicly reported earnings.

66. During the Class Period, company insiders sold approximately 1.94 million of their personal shares in the Company for proceeds of approximately \$80 million. Also during the Class Period, the Company offered \$479 million in company shares to the public, as well as millions of dollars of debt securities.

67. After the close of trading on Friday, June 10, 2004, the Company announced that the SEC had begun an informal investigation linked to the Company's method of accounting for acquisitions. The Company stated:

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.

68. As a result of this news, the Company's share price plunged from \$12.28 to \$10.05, or 18% on heavy trading volume.

GAAP VIOLATIONS

69. 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.

70. 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 its accounting reserves.

71. 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.

72. 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.

73. 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.

74. 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.

75. 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).

76. 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.

77. 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.

78. 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).

79. 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.”

80. 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.

Additional GAAP Violations

81. 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:

1.01. The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶ 10);

1.02. 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 was violated (FASB Statement of Concepts No. 1, ¶ 34);

1.03. 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 was violated (FASB Statement of Concepts No. 1, ¶ 40);

1.04. 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 was violated. 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 Statement of Concepts No. 1, ¶ 50);

1.05. The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. 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' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement 27 of Concepts No. 1, ¶ 42);

1.06. The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶ 58-59);

1.07. 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 was violated (FASB Statement of Concepts No. 2, ¶ 79); and

82. 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

was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶ 95, 97).

83. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

FIRST CLAIM FOR RELIEF

For Violations of Sections 10(b) and Rule 10b-5 Thereunder

84. Plaintiff incorporates by reference and realleges each of the foregoing paragraphs.

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

86. During the Class Period, defendants 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) benefit company insiders to the detriment of company shareholders; and (iii) 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.

87. 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 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

88. 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.

89. 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 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.

90. Each of 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 and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans,

projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

91. 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 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.

92. 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 trades, 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.

93. 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 the truth regarding the problems that Shaw was experiencing, 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.

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

95. 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 FOR RELIEF

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

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

97. The Individual Defendants acted as controlling persons of Shaw within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial 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 contend 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.

98. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is 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.

99. 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 positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of 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.

DEMAND FOR JURY TRIAL

100. Plaintiff demands a trial by jury on all issues.

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 Plaintiff's 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.

Dated: July 15, 2004

SIMON, PERAGINE, SMITH
& REDFEARN, L.L.P.

By: _____

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