

UNITED STATES DISTRICT COURT
DISTRICT OF MARYLAND

FRED WRIGHT, On Behalf of Himself and) No.
All Others Similarly Situated,)
) CLASS ACTION
Plaintiff,)
)
vs.)
)
MARTEK BIOSCIENCES CORPORATION,)
HENRY LINSERT, JR. and PETER L. BUZY,)
)
Defendants.)
) DEMAND FOR JURY TRIAL
_____)

COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

SUMMARY AND OVERVIEW

1. This is a securities class action on behalf of all purchasers of the publicly traded securities of Martek Biosciences Corporation (“Martek” or the “Company”) between December 9, 2004 and April 27, 2005 (the “Class Period”), against Martek and certain of its officers and directors for violations of the Securities Exchange Act of 1934 (the “1934 Act”).

2. Defendant Martek develops and sells products derived from microalgae and other microbes. The Company claims to have developed production methods and intellectual property for two fatty acids, docosahexaenoic acid (“DHA”) and arachidonic acid (“ARA”). Martek sells oils containing these fatty acids as DHASCO and ARASCO. It also claims to have developed fluorescent detection products from microalgae that connect fluorescent algal proteins to antibodies. The Company provides certain contract manufacturing services at its Kingstree, South Carolina facility. Martek has entered into licensing agreements with several infant formula manufacturers, including Mead Johnson Nutritionals, Wyeth, Abbott Laboratories, Nestle, Royal Numico N.V., Novartis, Maabarot, Heinz-Wattie’s, Laboratorios Ordesa, American St. George Biological Corporation, International Nutrition Company, PT Sanghiang Perkasa, Takaso Rubber and three other companies.

3. During the Class Period, defendants made false and misleading statements regarding the Company’s business and prospects. The true facts, which were known by each of the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants were well aware of the fact that the Company’s sales were declining and not showing the robust growth they were projecting. These were the very projections defendants were using to inflate the Company’s share price in order to consummate an \$86+ million secondary offering. In fact, internally, defendants had been made aware of, or made a conscious and deliberate decision to avoid being

made aware of, the fact that: (i) the Company’s total sales units, on a comparative weekly/monthly basis, of its infant formula market were evidencing a *sharp decline* – not growth – as defendants continuously claimed; (ii) also evidencing a marked decline, contrary to defendants’ growth claims, were the Company’s sales units of its infant formula products containing the Company’s DHA/ARA products; and (iii) this decline was not limited to one Company product, but rather was seen across the entire spectrum of the Company’s infant formula products. For example, as detailed in the table below, in a one-month period, defendants had witnessed sales declines in the Company’s formula products. These declines were of no surprise to defendants since they had “stuffed” their top 16 clients with excess inventory in the months prior.

TOTAL SALES UNITS	03/19	04/16	% CHANGE
Total Infant Formula Market	23.6 million	23.0 million	- 2.6%
Enfamil Lipil	5.9 million	5.7 million	- 2.8%
Enfamil EnfaCare Lipil	73,855	78,305	- 6.0%
Enfamil LactoFree Lipil	612,339	594,875	- 2.9%
Enfamil ProSobee Lipil	1.1 million	1 million	- 3.1%
Enfamil A.R. Lipil	311,082	300,378	- 3.4%
Enfamil Next-Step Lipil	91,986	87,660	- 4.7%
Enfamil Next-Step Pro Sobee Lipil	41,105	39,940	- 2.8%
Enfamil Nutramigen Lipil	537,744	513,096	- 4.6%
Similac Advance	5.0 million	4.9 million	- 3.0%
Similac 2 Advance	51,387	48,906	- 4.8%
Similac NeoSure Advance	168,074	163,033	- 3.0%
Similac Isomil Advance	1.6 million	1.6 million	- 2.6%
Similac Isomil 2 Advance	34,706	33,085	- 4.7%
Similac Alimentum Advance	419,399	404,296	- 3.6%
Nestle Good Start Supreme (DHA/ARA)	458,869	481,376	4.9%
Nestle Good Start Supreme 2 (DHA/ARA)	46,552	49,436	6.2%
Wyeth Bright Beginnings	32,221	37,677	16.9%
Total DHA/ARA Infant Formulas	16.5 million	16.0 million	-2.7%

U.S. Retail Sales of DHA/ARA Infant Formulas (Source: AC Nielsen)

(b) The Company's ability to grow was solely dependent upon its ability to increase sales of its DHA/ARA products. However, by Fall 2004, the Company had already flooded its DHA/ARA licensees with the Company's products above and beyond appropriate inventories. In doing so, the Company, at the hands of the individual defendants, had essentially *sold* its future growth in exchange for its Q4 2004 (ended October 31, 2004) earnings report which claimed the Company had "robust growth in earnings and revenue," and which was issued on December 9, 2004, just weeks before the Company's January 13, 2005 secondary offering at \$49.10 pursuant to a Prospectus dated January 21, 2005. As a result, the Company's Q4 2004 results issued December 9, 2004 were materially false and misleading.

(c) The Company's claim that its costly expansion of its Kingstree manufacturing facility would increase the Company's "economies of scale" was *baseless*, as defendants did not have the ability to ascertain the *inventory* levels of its key licensees, which accounted for 90% of the Company's revenues. As a result, the Company's claims of resultant gross margin benefits from the expanded facility were also baseless.

(d) The Company's internal projections associated with sales greatly conflicted with those defendants made publicly. Even a basic analysis of the Company's "inventory turns," which had declined significantly (to 4.2), would have put even a reckless defendant on notice of the flawed forecasts as the inventory turns had been averaging 4.8 for more than a year.

(e) *All* of the Company's projections, *both* historical and those made during the Class Period, were based upon mere "guesses" by management and *not* on actual knowledge or even basic scientific methodology. In fact, as would be revealed *after* the Company essentially dropped a bomb on its shareholders, the Company to this date, has *not had the ability* to analyze the sales or inventory of its key 16 licensees accounting for 90% of its revenue.

(f) For reasons described above in (a)-(e), the Company's projections issued on December 9, 2004 were not based on fact or scientifically based assumptions, but rather on defendants' own "guess work."

4. As a result of defendants' false statements, Martek stock traded at inflated levels during the Class Period, whereby the Company's top officers and directors arranged for the sale of more than \$86 million worth of Company shares.

JURISDICTION AND VENUE

5. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and Rule 10b-5.

6. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(b) Martek's executive offices are located at 6480 Dobbin Road, Columbia, Maryland, where the day-to-day operations of the Company are directed and managed.

THE PARTIES

7. Plaintiff Fred Wright purchased Martek securities as described in the attached certification and was damaged thereby.

8. Defendant Martek develops and sells products derived from microalgae and other microbes. The Company claims to have developed production methods and intellectual property for two fatty acids, docosahexaenoic acid (DHA) and arachidonic acid (ARA). Martek sells oils containing these fatty acids as DHASCO and ARASCO. It also claims to have developed fluorescent detection products from microalgae that connect fluorescent algal proteins to antibodies.

9. Defendant Henry Linsert, Jr. (“Linsert”) is Chairman, Chief Executive Officer and founder of Martek.

10. Defendant Peter L. Buzy (“Buzy”) was Chief Financial Officer of Martek.

11. The individuals named as defendants in ¶¶9-10 are referred to herein as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Martek’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. Each defendant was 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. Because of their positions and access to material non-public information available to them but not to the public, each of these defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein at ¶¶20-25, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

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12. In addition to the above-described involvement, each Individual Defendant had knowledge of Martek’s problems and was motivated to conceal such problems. Defendant Buzy, as CFO, was responsible for financial reporting and communications with the market. Many of the internal reports showing Martek’s forecasted and actual growth were prepared by the finance department under Buzy’s direction. Defendant Linsert, as CEO and Chairman, was responsible for the financial results and press releases issued by the

Company. Each Individual Defendant sought to demonstrate that he could lead the Company successfully and generate the growth expected by the market.

13. Defendants were motivated to engage in the fraudulent practices alleged herein in order to consummate a secondary offering raising net proceeds of more than \$81 million.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

14. Each defendant is liable for (i) making false statements, *or* (ii) failing to disclose adverse facts known to him about Martek. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Martek publicly traded securities was a success, as it (i) deceived the investing public regarding Martek's prospects and business; (ii) artificially inflated the prices of Martek publicly traded securities; (iii) allowed defendants to arrange to sell and actually sell in excess of \$86 million worth of Martek stock at an artificially inflated price and consummate the secondary offering on the least dilutive terms possible; and (v) caused plaintiff and other members of the Class to purchase Martek publicly traded securities at inflated prices.

BACKGROUND

15. Martek develops and sells products derived from microalgae and other microbes. The Company has developed production methods and intellectual property for two fatty acids, DHA and ARA. Martek sells oils containing these fatty acids as DHASCO and ARASCO. It has also developed fluorescent detection products from microalgae that connect fluorescent algal proteins to antibodies. The Company provides certain contract manufacturing services at its Kingstree, South Carolina facility. Martek has entered into licensing agreements with several infant formula manufacturers, including Mead Johnson Nutritionals, Wyeth, Abbott Laboratories, Nestle, Royal Numico N.V., Novartis, Maabarot, Heinz-Wattie's,

Laboratorios Ordesa, American St. George Biological Corporation, International Nutrition Company, PT Sanghiang Perkasa, Takaso Rubber and three other companies.

16. By Spring 2004, the Company had just cashed in its coffers of \$38 million. Defendants sought to raise additional funds of approximately \$100 million in order to fund the Company's operations and pay down its credit facility by \$30-\$40 million, the interest on which was eroding the Company's net income and the value of defendants' stock options. However, defendants knew that waiting to raise organic funds through the Company's sporadic profits was unrealistic. Instead, defendants formulated a plan to increase the Company's share price, which would make any future fund raising efforts through share sales less dilutive (and thus diminish the impact on the defendants' own shareholdings). However, as the Company came closer to commencing its \$86+ million secondary offering, the Company's *actual* future ability to grow was continuing to *conflict* with defendants' prior claims of solid growth. In fact, by Fall 2004, it was clear that instead of growth the Company was actually poised for a broad decline in sales of nearly all of its infant formula products.

17. On May 21, 2004, the Company issued a press release entitled "Martek Files Universal Shelf Registration Statement." The press release stated in part:

Martek Biosciences Corporation announced today that it has filed a universal shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission (SEC) pursuant to which the company may issue, from time to time, debt securities, preferred stock, publicly traded securities, and warrants to purchase debt securities, preferred stock or publicly traded securities, in an aggregate amount of up to \$200 million.

Once declared effective by the SEC, the shelf registration statement would enable the company to raise funds from the offering of any individual security covered by the shelf registration statement, as well as any combination thereof, from time to time and through one or more methods of distribution, subject to market conditions and the company's capital needs.

18. On June 9, 2004, the Company issued a press release entitled “Martek Announces Second Quarter Financial Results; Revenues of \$41.9 Million; Earnings of \$3.4 Million.” The press release stated in part:

Martek Biosciences Corporation today announced its financial results for the second quarter and six months ended April 30, 2004. For the second quarter of 2004 (2nd Qtr 04), revenues of \$41.9 million were achieved, up from \$26.4 million for the 2nd Qtr 03, and for the six months ended April 30, 2004 (04 YTD), revenues of \$77.5 million were achieved, up from \$47.0 million for 03 YTD. For the 2nd Qtr 04, Martek earned net income of \$3.4 million, or \$0.11 per diluted share, compared to net income of \$3.1 million or \$0.12 per diluted share in the 2nd Qtr 03. For 04 YTD, Martek earned net income of \$6.8 million, or \$0.22 per diluted share, compared to net income of \$5.2 million or \$0.21 per diluted share for 03 YTD.

. . . “The Company invested a lot of money to enable manufacturing to expand by the end of the third quarter. Martek should get a ‘two-fer.’ Additional production capacity should provide greater volumes at the same time realizing economies of scale,” stated Henry “Pete” Linsert, Jr., Chief Executive Officer of Martek.

2nd Qtr Consolidated Financial Results

Total revenues for the 2nd Qtr 04 were \$41.9 million, an increase of \$15.5 million or 59% over the 2nd Qtr 03. *A significant portion of this increase is due to higher sales of nutritional products to the Company’s infant formula licensees. . . . Approximately 90% of Martek’s 2nd Qtr 04 nutritional product sales were generated from sales of docosahexaenoic acid (DHA) and arachidonic acid (ARA) to four of the Company’s infant formula licensees: Mead Johnson, Wyeth, Abbott Laboratories and Nestle.* Supplemented term infant formulas manufactured by three of these companies were introduced in the U.S. in 2002, and Nestle launched a supplemented formula in the U.S. in 2003. Also included in Martek’s 2nd quarter revenues was \$3.7 million related to contract manufacturing revenues generated by the former FermPro business in Kingstree, SC, which was acquired in September 2003.

During the 2nd quarter, the Company continued to satisfy as much customer demand as possible, while, at times, sacrificing cost efficiencies. As such, gross profit margin decreased to 35% during the 2nd Qtr 04, down from 41% for the same period in 03. The decrease primarily resulted from our continued use of air freight to reduce the transit time of ARA shipments from DSM in Europe to our plant in Kentucky, which resulted in significantly higher costs. In addition, our cost of ARA manufactured by DSM has risen from the prior year due to the decline of the U.S. dollar/euro exchange rate. *We expect our gross profit margins to be negatively affected by both factors again in the 3rd Qtr 04, but do anticipate some gross profit margin improvements next quarter due to efficiencies gained in DHA production. We expect the negative factors to be greatly mitigated by the*

end of Martek's fiscal year as a result of significant U.S. ARA production. Gross profit margin for the 2nd Qtr 04 compared to the 2nd Qtr 03 also includes the impact of \$3.7 million of lower margin contract manufacturing revenues related to the former FermPro business.

19. On September 8, 2004, the Company issued a press release entitled "Martek Announces Third Quarter Financial Results; Revenues Over \$47 Million; Earnings of \$5 Million." The press release stated in part:

Martek Biosciences Corporation today announced its financial results for the third quarter and nine months ended July 31, 2004. For the third quarter of 2004 (3rd Qtr 04), revenues of \$47.3 million were achieved, up from \$29.1 million for the 3rd Qtr 03, and for the nine months ended July 31, 2004 (04 YTD), revenues of \$124.8 million were achieved, up from \$76.1 million for 03 YTD. For the 3rd Qtr 04, Martek earned net income of \$5.0 million, or \$0.16 per diluted share, compared to net income of \$4.6 million or \$0.16 per diluted share in the 3rd Qtr 03. For 04 YTD, Martek earned net income of \$11.8 million, or \$0.38 per diluted share, compared to net income of \$9.8 million or \$0.37 per diluted share for 03 YTD.

"Martek has been able to overcome production problems created by the fire at DSM's U.S. facility and still achieve a 63% quarterly revenue growth. New production capacity coming on-line as well as increased efficiencies and economies of scale should allow rapid growth to continue with increasing gross profit margins in the coming quarters," stated Henry "Pete" Linsert, Jr., Chief Executive Officer of Martek.

3rd Qtr Consolidated Financial Results

Total revenues for the 3rd Qtr 04 were \$47.3 million, an increase of \$18.2 million or 63% over the 3rd Qtr 03. A significant portion of this increase is due to higher sales of nutritional products to the Company's infant formula licensees Approximately 90% of Martek's 3rd Qtr 04 nutritional product sales were generated from sales of docosahexaenoic acid (DHA) and arachidonic acid (ARA) to four of the Company's infant formula licensees: Mead Johnson, Wyeth, Abbott Laboratories and Nestle. Supplemented term infant formulas manufactured by three of these companies were introduced in the U.S. in 2002, and Nestle launched a supplemented formula in the U.S. in 2003. *Also included in Martek's 3rd quarter revenues were \$3.3 million related to contract manufacturing revenues generated by the former FermPro business in Kingstree, SC, which was acquired in September 2003. Significant revenue growth is projected by the Company for fiscal years 2005 and 2006. In order to maximize the profitability of these revenues and ensure a sufficient infrastructure exists to support this growth, Martek has recently expanded both the research and development and selling, general and administrative areas within the Company. . . .*

Consistent with the prior two quarters of fiscal 2004, during the 3rd quarter, the Company satisfied as much customer demand as possible, while, at times, sacrificing cost efficiencies. As such, gross profit margin on total revenues decreased to 38% during the 3rd Qtr 04, from 42% for the 3rd Qtr 03, but improved from the gross profit margin of 35% realized in the 2nd Qtr 04. The decrease from 3rd Qtr 03 resulted from the Company's continued use of air freight in connection with ARA shipments from Europe and internal production inefficiencies in connection with the commencement of DHA manufacturing at the Kingstree plant. The gross profit margin for the current quarter was also impacted by an increase in the Company's overall cost of ARA due to the decline in the U.S. dollar against the euro; however, such impact was largely offset by the benefits of certain DHA production improvements recently developed and an insurance receipt by Martek of approximately \$1 million associated with the fire incident at DSM. We expect our gross profit margins in the 4th Qtr 04 to continue to reflect the benefits of the newly implemented production methods and expect the impact of the negative factors noted above to be greatly mitigated by the end of Martek's fiscal year. Gross profit margin for the 3rd Qtr 04 compared to the 3rd Qtr 03 also includes the impact of \$3.3 million of lower margin contract manufacturing revenues related to the former FermPro business.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

20. On December 9, 2004, the Company issued a press release entitled "Martek Announces Record Fourth Quarter and FY 2004 Financial Results; Revenues Near \$60 Million; Pre-Tax Earnings of \$10 Million." The press release stated in part:

Martek Biosciences Corporation today announced its financial results for the fourth quarter and year ended October 31, 2004. For the fourth quarter of 2004 (4th Qtr 04), revenues of \$59.7 million were achieved, up from \$38.6 million for the fourth quarter of 2003 (4th Qtr 03), and for year ended October 31, 2004 (FY 04), revenues of \$184.5 million were achieved, up from \$114.7 million for the year ended October 31, 2003 (FY 03). For the 4th Qtr 04, Martek generated income before income taxes of \$10.1 million compared to income before income taxes of \$6.2 million in the 4th Qtr 03. For FY 04, Martek generated income before income taxes of \$21.9 million compared to income before income taxes of \$16.0 million for FY 03. Net income was \$35.3 million, or \$1.16 per diluted share, for the 4th Qtr 04 compared to net income of \$6.2 million, or \$0.21 per diluted share, for the 4th Qtr 03 and net income was \$47.0 million, or \$1.55 per diluted share, for FY 04 compared to net income of \$16.0 million, or \$0.58 per diluted share, for FY 03. Both the 4th Qtr 04 and FY 04 net income amounts reflect a one-time, non-cash income tax benefit of \$25.2 million. . . .

"Martek continued its robust growth in earnings and revenue in the fourth quarter. This growth is expected to continue throughout 2005 as the Kingstree facility expands

production and demand grows from existing and new products,” stated Henry “Pete” Linsert, Jr., Chief Executive Officer of Martek.

4th Qtr Consolidated Financial Results

Total revenues for the 4th Qtr 04 were \$59.7 million, an increase of \$21.0 million or 54% over the 4th Qtr 03. A significant portion of this increase is due to higher sales of nutritional products to the Company’s infant formula licensees Approximately 90% of Martek’s 4th Qtr 04 nutritional product sales were generated from sales of docosahexaenoic acid (DHA) and arachidonic acid (ARA) oils to four of the Company’s infant formula licensees: Mead Johnson, Wyeth, Abbott Laboratories and Nestle. Supplemented term infant formulas manufactured by three of these companies were introduced in the U.S. in 2002, and the fourth, Nestle, launched a supplemented formula in the U.S. in 2003. Also included in Martek’s 4th Qtr 04 revenues were the Company’s initial sales of DHA oil for the pregnancy and lactation market as well as \$3.6 million related to contract manufacturing revenues generated by the former FermPro business in Kingstree, SC, which was acquired in September 2003. *To prepare the Company for future growth, the Company has expanded both the research and development and selling, general and administrative efforts during fiscal 2004. . . .*

Gross profit margin on total revenues was 39% for both the 4th Qtr 04 and the 4th Qtr 03. The gross profit margin for the current quarter was negatively impacted by an increase in the Company’s overall cost of ARA due to the continued decline in the U.S. dollar against the euro and the continued use of air freight in connection with ARA shipments from Europe; however, such impacts were offset by the benefits of certain DHA production improvements recently developed and significant growth in the ARA volume received from DSM’s Belvidere, New Jersey manufacturing plant. *The Company expects its gross profit margins to improve in fiscal 2005 as the newly implemented production methods further improve production yields, economies of scale are achieved at the recently expanded Kingstree, South Carolina manufacturing facility and DSM’s Belvidere plant continues to increase its ARA production volumes.*

Research and development expenses increased by \$1.2 million or 31% in the 4th Qtr 04 compared to the 4th Qtr 03. *The increase is primarily the result of the additional resources directed toward the Company’s continuing efforts to lower its DHA production cost by increasing fermentation production yields and developing new downstream processing techniques.* In addition, costs were incurred in connection with the development of DHA products for the food and beverage industry and development activities associated with Martek’s internal ARA production as well as other research in connection with the development of plant-based DHA under a collaboration agreement with SemBioSys.

21. On January 13, 2005, the Company issued a press release entitled “Martek Announces Proposed Offering of 1,500,000 Shares of Publicly traded securities.” The press release stated in part:

Martek Biosciences Corporation today announced that it plans to conduct an underwritten offering of 1,500,000 shares of its publicly traded securities under an existing shelf registration statement. In connection with the offering, Martek expects to grant the underwriters an option to purchase up to 225,000 additional shares to cover over-allotments.

22. On January 21, 2005, the Company issued a press release entitled “Martek Biosciences Announces Pricing of Publicly traded securities Offering.” The press release stated in part:

Martek Biosciences Corporation today announced that it has priced its offering of 1,527,490 shares of publicly traded securities at a public offering price of \$49.10 per share. The publicly traded securities is expected to be issued on January 26, 2005, subject to customary conditions.

Martek expects to receive net proceeds after deducting an underwriting discount and estimated offering expenses of approximately \$70.8 million from the sale of the 1,527,490 shares. If the underwriters elect to exercise an option to purchase an additional 229,124 shares of publicly traded securities to cover over-allotments, the Company will receive an additional approximately \$10.7 million in net proceeds. Martek plans to use the proceeds from the offering for capital expenditures, working capital and general corporate purposes. Citigroup is acting as sole bookrunning manager of the offering. Adams Harkness, Inc. is acting as co-lead manager and Needham & Company, Inc., First Albany Capital and D.A. Davidson & Co. are acting as co-managers.

23. On January 26, 2005, the Company issued a press release entitled “Martek Biosciences Closes on Publicly traded securities Offering.” The press release stated in part:

Martek Biosciences Corporation today announced that it has closed on its sale of 1,756,614 shares of publicly traded securities at a public offering price of \$49.10 per share. The sale included 1,527,490 shares of publicly traded securities and the underwriters’ option to purchase 229,124 additional shares of publicly traded securities to cover over-allotments.

Martek received net proceeds of approximately \$81.4 million from the sale of the 1,756,614 shares after deducting an underwriting discount and estimated offering expenses. Martek plans to use the proceeds from the offering for capital expenditures, working capital and general corporate purposes.

24. On February 25, 2005, the Company issued a press release entitled “Martek Added to the S&P MidCap 400 Index.” The press release stated in part:

Martek Biosciences Corporation announced today that the Company will be added to Standard & Poor’s MidCap 400 after the close of trading on Tuesday, March 1st. The S&P

MidCap 400 is the most widely used index for mid-sized companies, according to Standard & Poor's.

“Martek is pleased to be added to the S&P MidCap 400 index. Inclusion in this popular index should broaden the company's exposure to investors,” said Henry Linsert Jr., CEO of Martek.

The S&P MidCap 400 covers approximately 7% of the U.S. equities market, and is part of a series of S&P U.S. indices that can be used as building blocks for portfolio construction. Standard & Poor's reports that today mid-caps are recognized as an independent asset class, with risk/reward profiles that differ considerably from both large-caps and small-caps.

25. On March 9, 2005, the Company issued a press release entitled “Martek Announces First Quarter Financial Results; Revenues of \$66.5 Million; Earnings of \$7.1 Million.” The press release stated in part:

Martek Biosciences Corporation today announced its financial results for the first fiscal quarter of 2005 (1st Qtr 05), which ended January 31, 2005. For the 1st Qtr 05, revenues of \$66.5 million were achieved, up from \$35.6 million for the first quarter of fiscal 2004 (1st Qtr 04). For the 1st Qtr 05, Martek generated income before income taxes of \$11.1 million compared to income before income taxes of \$3.4 million in the 1st Qtr 04. Net income was \$7.1 million, or \$0.23 per diluted share, for the 1st Qtr 05 compared to net income of \$3.4 million, or \$0.11 per diluted share, for the 1st Qtr 04. The 1st Qtr 05 net income included an income tax provision of \$4.1 million, while no income tax provision was included in the 1st Qtr 04 net income.

“Financially, Martek's first quarter of 2005 was a good one and the numbers speak for themselves,” stated Henry “Pete” Linsert, Jr., Chief Executive Officer of Martek.

1st Qtr Consolidated Financial Results

Total revenues for the 1st Qtr 05 were \$66.5 million, an increase of \$30.9 million or 87% over the 1st Qtr 04. Most of the increase was due to higher sales of nutritional products to the Company's infant formula licensees. Approximately 90% of Martek's 1st Qtr 05 product sales were generated from sales of docosahexaenoic acid (DHA) and arachidonic acid (ARA) to four of the Company's infant formula licensees: Mead Johnson, Abbott Laboratories, Nestle and Wyeth. Included in Martek's 1st Qtr 05 revenues were sales of DHA for the pregnancy and nursing market, such sales having begun during the fourth quarter of fiscal 2004. . . .

Gross profit margin on total revenues was 41% for the 1st Qtr 05 and 38% for the 1st Qtr 04. This gross profit margin improvement for the current quarter was due in part to a

decrease in the Company's overall cost of ARA from DSM Food Specialties B.V. (DSM), Martek's third-party ARA manufacturer. *DSM's increased U.S. production of ARA was largely responsible for this decrease. Improvements in DHA productivity also served to improve the current period's gross margin. DHA productivity coupled with further expansion of DSM's U.S. ARA manufacturing and a reduction in air freight costs should further improve gross profit margin in the second half of fiscal 2005.*

Research and development expenses, primarily development, increased by \$800,000 or 20% in the 1st Qtr 05 compared to the 1st Qtr 04. The increase was primarily the result of additional efforts in Martek's internal ARA production and its continuing efforts to lower its DHA production costs. Additionally, costs were incurred from new DHA clinical studies as well as the Martek/SemBioSys plant-based DHA research project.

Selling, general and administrative expenses increased by \$2.3 million or 41% during the 1st Qtr 05 over the 1st Qtr 04. The increase was primarily due to additional personnel, legal and insurance costs required to accelerate and manage the Company's overall growth. Specifically, the Company increased staffing in its business development, food and beverage sales and marketing and finance departments.

Other operating expenses totaled \$3.5 million and \$500,000 in the 1st Qtr 05 and 1st Qtr 04, respectively. During 1st Qtr 05, the Company began large-scale production trials with certain fermentors and extraction facilities at both Kingstree, South Carolina and Winchester, Kentucky for the production of ARA. These large-scale trials commenced after completion of the ARA technology transfer from DSM to Martek in late fiscal 2004 and generated start-up costs of approximately \$2.0 million in the current quarter. Other operating expenses in the current quarter also included costs associated with the expansion in Kingstree and start-up costs related to new extraction technology used in the production of Martek's food DHA product.

DEFENDANTS' SCHEME BEGINS TO UNWIND

26. On April 27, 2005, the Company issued a press release entitled "Martek Lowers FY '05 Revenue and Earnings Estimates; Slower Short-term Rate of International Expansion by Customers; Achieves Production Improvements." The press release stated in part:

Martek Biosciences Corporation today provided an update of its earnings estimates and production plan for fiscal year 2005.

Martek's second quarter revenues should be approximately \$55 million, the high end of our previous estimate. Earnings are also expected to be within our estimate of \$3.4 million to \$3.6 million for the second quarter.

Although Martek will be able to take its customers off allocation during the third quarter, *we anticipate a decrease in third quarter sales primarily due to reduced customer demand caused by the build up of inventory by large customers during the past several quarters to protect themselves from supply shortages.* We were only recently made aware of the extent of this inventory build up. We do not believe that the decrease in sales is an indication of reduced demand at the consumer level, which we believe continues to grow. *We also anticipate unforeseen delays in our customers' international expansion plans in part due to our previous inability to supply customers on a consistent basis, and delays in plans for complete conversion of the U.S. market to formulas containing our oils.*

Therefore, we are revising our estimate of third quarter revenues to \$38 million to \$42 million, fourth quarter revenues to \$61 million to \$76 million and fiscal year 2005 revenues to \$220 million to \$240 million. We anticipate our earnings will be materially lower than the current estimate and will provide details during Martek's second quarter earnings release planned for the week of June 6, 2005.

Martek's combined annual production capacity of ARA and DHA as of May is estimated to be between \$380 million to \$400 million, in line with our plan to have \$500 million of annualized capacity in place during the second half of the year, thereby ending a supply shortage that has existed for the past two years. A tremendous amount of progress has been made in the production of ARA since the early March supply gap. Plant expansions as well as productivity improvements for both DHA and ARA have contributed to resolving the production shortfall that previously existed.

Martek will begin to build a finished goods inventory of ARA in the third quarter, which along with our finished goods inventory of DHA, has enabled us to assure our customers that we will have sufficient inventory to protect from product shortages and will enable us to meet market demand. This facilitates further customer expansion into international markets and further conversion of the U.S. infant formula market.

27. On this news the Company's shares plummeted more than 45% from \$60.08 on April 27, 2005 to \$32.49 on April 28, 2005, on more than 12 times the stock's average daily trading volume as the artificial inflation came out of the stock.

WALL STREET REACTS

28. On April 28, 2005, D.A. Davidson & Co. issued two reports on Martek:
- (a) One report, entitled "Another Fire Drill, This Time Inventory," stated in part:
 - ***Martek dropped a bomb*** after the market's close with guidance that sales would be much lower in its 3Q and 4Q than previously expected. The reason given:

customers have been hoarding inventories of DHA and ARA and thus don't need to order as much in the second half of the year. Martek reports that they only recently were made aware of these inventories by their customers.

(b) The second report, entitled "It Was A Messy Call, Management Stumbled – Bottom

Line: We Buy the Product Growth Story," stated in part:

- According to management, the inventory buildup was difficult to manage. Martek did not "have the ability to look under the hood in any customer" and is making a painful transition from a shortage to a surplus. The company believes these problems of order and supply variations should largely go away. Still this "inability to look under the hood" cost us dearly as shareholders. We would argue that *management had no business making any sort of projections in the past, if it didn't have a real basis for those projections, or if it had little confidence in the projections.*

29. The true facts, which were known by each of the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants were well aware of the fact that the Company's sales were declining and not showing the robust growth they were projecting. These were the very projections defendants were using to inflate the Company's share price in order to consummate an \$86+ million secondary offering. In fact, internally, defendants had been made aware of, or made a conscious and deliberate decision to avoid being made aware of, the fact that: (i) the Company's total sales units, on a comparative weekly/monthly basis, of its infant formula market were evidencing a *sharp decline* – not growth – as defendants continuously claimed; (ii) also evidencing a marked decline, contrary to defendants' growth claims, were the Company's sales units of its infant formula products containing the Company's DHA/ARA products; and (iii) this decline was not limited to one Company product, but rather was seen across the entire spectrum of the Company's infant formula products. For example, as detailed below, in a one-month period, defendants had witnessed sales declines in the Company's formula products. These declines were of no surprise to defendants since they had "stuffed" their top 16 clients with excess inventory in the months prior:

TOTAL SALES UNITS	03/19	04/16	% CHANGE
Total Infant Formula Market	23.6 million	23.0 million	- 2.6%
Enfamil Lipil	5.9 million	5.7 million	- 2.8%
Enfamil EnfaCare Lipil	73,855	78,305	- 6.0%
Enfamil LactoFree Lipil	612,339	594,875	- 2.9%
Enfamil ProSobee Lipil	1.1 million	1 million	- 3.1%
Enfamil A.R. Lipil	311,082	300,378	- 3.4%
Enfamil Next-Step Lipil	91,986	87,660	- 4.7%
Enfamil Next-Step Pro Sobee Lipil	41,105	39,940	- 2.8%
Enfamil Nutramigen Lipil	537,744	513,096	- 4.6%
Similac Advance	5.0 million	4.9 million	- 3.0%
Similac 2 Advance	51,387	48,906	- 4.8%
Similac NeoSure Advance	168,074	163,033	- 3.0%
Similac Isomil Advance	1.6 million	1.6 million	- 2.6%
Similac Isomil 2 Advance	34,706	33,085	- 4.7%
Similac Alimentum Advance	419,399	404,296	- 3.6%
Nestle Good Start Supreme (DHA/ARA)	458,869	481,376	4.9%
Nestle Good Start Supreme 2 (DHA/ARA)	46,552	49,436	6.2%
Wyeth Bright Beginnings	32,221	37,677	16.9%
Total DHA/ARA Infant Formulas	16.5 million	16.0 million	-2.7%

U.S. Retail Sales of DHA/ARA Infant Formulas (Source: AC Nielsen)

(b) The Company's ability to grow was solely dependent upon its ability to increase sales of its DHA/ARA products. However, by Fall 2004, the Company had already flooded its DHA/ARA licensees with the Company's products above and beyond appropriate inventories. In doing so, the Company, at the hands of the individual defendants, had essentially *sold* its future growth in exchange for its Q4 2004 (ended October 31, 2004) earnings report which claimed the Company had "robust growth in earnings and revenue," and which was issued on December 9, 2004, just weeks before the Company's January 13, 2005 secondary offering. As a result, the Company's Q4 2004 results issued December 9, 2004 were materially false and misleading.

(c) The Company's claim that its costly expansion of its Kingstree manufacturing facility would increase the Company's "economies of scale" was *baseless*, as defendants did not have the ability to ascertain the *inventory* levels of its key licensees, which accounted for 90% of the Company's revenues. As a result, the Company's claims of resultant gross margin benefits from the expanded facility were also baseless.

(d) The Company's internal projections associated with sales greatly conflicted with those defendants made publicly. Even a basic analysis of the Company's "inventory turns," which had declined significantly (to 4.2), would have put even a reckless defendant on notice of the flawed forecasts as the inventory turns had been averaging 4.8 for more than a year.

(e) *All* of the Company's projections, *both* historical and those made during the Class Period, were based upon mere "guesses" by management and *not* on actual knowledge or even basic scientific methodology. In fact, as would be revealed *after* the Company essentially dropped a bomb on its shareholders, the Company to this date, has *not had the ability* to analyze the sales or inventory of its key 16 licensees accounting for 90% of its revenue.

(f) For reasons described above in (a)-(e), the Company's projections issued on December 9, 2004 were not based on fact or scientifically based assumptions, but rather on defendants' own "guess work."

30. As a result of defendants' false statements, Martek stock traded at inflated levels during the Class Period, whereby the Company's top officers and directors arranged for the sale of more than \$86+ million worth of Company shares.

LOSS CAUSATION/ECONOMIC LOSS

31. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated Martek's stock price and operated as a fraud or deceit on Class Period purchasers of Martek stock by misrepresenting the Company's results, business success and future business prospects. Defendants achieved this façade of success, growth and strong future business prospects by blatantly misrepresenting the Company's earning estimates and projected growth. Later, however, when defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, Martek's stock fell precipitously as the prior artificial inflation came out of Martek's stock price. As a result of their purchases of Martek stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

32. By improperly misrepresenting the Company's future growth prospects, the defendants presented a misleading picture of Martek's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Martek's business was not as healthy as represented, defendants caused Martek to falsely report Martek's "record" results and "robust growth."

33. These claims of record results and "robust growth" caused and maintained the artificial inflation in Martek's stock price throughout the Class Period and until the truth was revealed to the market.

34. Defendants' false and misleading statements had the intended effect and caused Martek's stock to trade at artificially inflated levels throughout the Class Period, reaching as high as \$68.35 per share.

35. As a direct result of defendants' admissions and the public revelations regarding the truth about Martek's actual business prospects going forward, Martek's stock price plummeted 45%, falling from \$60.08 on April 27, 2005 to \$32.49 per share on April 28, 2005, a one day drop of \$27.59 per share. This drop removed the inflation from Martek's stock price, causing real economic loss to investors who had

purchased the stock during the Class Period. In sum, as the truth about defendants' fraud and Martek's business prospects was revealed, the Company's stock price plummeted, the artificial inflation came out of the stock and plaintiff and other members of the Class were damaged, suffering economic losses of at least \$27.59 per share.

36. The 45% decline in Martek's stock price at the end of the Class Period was a direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market. The timing and magnitude of Martek's stock price declines negate any inference that the loss suffered by plaintiff and other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the defendants' fraudulent conduct. The same day that Martek's stock price fell 45% from \$60.08 per share at the end of the Class Period as a result of defendants' fraud being revealed, the Standard & Poor's 500 securities index was essentially flat. The economic loss, *i.e.*, damages, suffered by plaintiff and other members of the Class was a direct result of defendants' fraudulent scheme to artificially inflate Martek's stock price and the subsequent significant decline in the value of Martek's stock when defendants' prior misrepresentations and other fraudulent conduct was revealed.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

37. Plaintiff incorporates ¶¶1-36 by reference.

38. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

39. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Martek publicly traded securities during the Class Period.

40. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Martek publicly traded securities. Plaintiff and the Class would not have purchased Martek publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

41. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Martek publicly traded securities during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

42. Plaintiff incorporates ¶¶1-41 by reference.

43. The Individual Defendants acted as controlling persons of Martek within the meaning of §20(a) of the 1934 Act. By reason of their positions as officers and/or directors of Martek, and their ownership of Martek stock, the Individual Defendants had the power and authority to cause Martek to engage in the wrongful conduct complained of herein. Martek controlled each of the Individual Defendants

and all of its employees. By reason of such conduct, the Individual Defendants and Martek are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

44. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Martek publicly traded securities on the open market during the Class Period (the “Class”). Excluded from the Class are defendants.

45. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Martek had more than 31 million shares of stock outstanding, owned by hundreds if not thousands of persons.

46. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) Whether the 1934 Act was violated by defendants;
- (b) Whether defendants omitted and/or misrepresented material facts;
- (c) Whether defendants’ statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) Whether defendants knew or deliberately disregarded that their statements were false and misleading;
- (e) Whether the prices of Martek publicly traded securities were artificially inflated; and
- (f) The extent of damage sustained by Class members and the appropriate measure of damages.

47. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

48. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

49. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to FRCP 23;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- C. Awarding plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: May 16, 2005

_____/S/_____
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