CONSOLIDATED AMENDED CLASS ACTION COMPLAINT

Lead Plaintiffs Jerry Reed, John Younginer, Thomas Cavanaugh, and Kitisak Sowattanangkul and Representative Plaintiff James Keathley (“Keathley”) (collectively “Plaintiffs”), individually and on behalf of all others similarly situated, by and through their attorneys, allege the following based upon personal knowledge as to themselves, and information and belief as to all other matters, including an investigation conducted by, and under the supervision of, their counsel, which investigation included the review and analysis of information related to the relevant time period, including, *inter alia*, United States Securities and Exchange Commission (“SEC”) filings by Martek Biosciences Corporation (“Martek” or the “Company”), press releases, news articles, and other media reports (including those disseminated in print and by electronic media), reports of securities analysts and investor advisory services, and interviews with numerous former employees of Martek. Except as alleged herein, the underlying information concerning Defendants’ misconduct, and the particulars thereof, are not available to Plaintiffs and the public and lie within the possession and control of Defendants and other Martek insiders. Accordingly, Plaintiffs believe that additional substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action brought by Plaintiffs on behalf of all persons and entities that purchased and/or otherwise acquired the common stock of Martek (the “Class”) during the
period December 9, 2004, through and including April 28, 2005, (the “Class Period”), including those that were purchased in the Company’s Public Offering of 1,756,614 shares on or about January 21, 2005 (the “Secondary Offering”), and were damaged by Defendants’ conduct as detailed herein. Plaintiffs seek to pursue remedies under the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”).

2. Martek researches, develops, manufactures, and sells products derived from microalgae. Specifically, Martek has developed and patented two fermentable strains of microalgae that produce two fatty acids, Docosahexaenoic acid (“DHA”) and Arachidonic acid (“ARA”), both of which, according to the Company, are important nutrients in infant development. Both DHA and ARA are used in infant formulas and can also be used as dietary supplements for older children and adults, thus providing Martek with the potential to enter relationships with companies in the nutritional and food and beverage markets.

3. Throughout the Class Period, Defendants boasted that: (i) demand for Martek’s products was on the rise and would continue to grow; (ii) the “outlook for future revenue growth remain[ed] positive;” (iii) upside opportunity existed as capacity became available; (iv) the Company expected to achieve revenues of between $290 and $310 million in fiscal year 2005, a 57 to 68% increase over 2004; (v) production was ramping up and was on track to reach an annualized revenue run rate of $500 million by the second half of fiscal 2005; and, therefore (vi) by the beginning of the Class Period, there was an unprecedented optimism about the Company’s future. Defendants repeatedly reaffirmed these representations in press releases, public filings, and public conference calls with investors and securities analysts during the Class Period.

4. Contrary to these positive statements, however, Defendants knew certain facts that rendered their projections materially false and misleading and without reasonable basis. For
example, they were aware that their customers were stockpiling inventory because, as explained more fully herein, customers were deviating from their usual practice of timely returning the “shippers” in which Martek transported its product. Thus, Defendants knew that future orders for their product would be reduced and that as a result revenues for the upcoming quarters would be down, rendering their optimistic revenue projections without reasonable basis.

5. Also as discussed in greater detail herein, Martek had only four primary customers who collectively accounted for 90% of its ARA and DHA sales. Thus, it was not difficult for Defendants to deduce that Martek’s customers were in the process of building up a storage of excess supply. Truth be told, at the time Martek issued the numerous statements providing details of its prosperous future, Defendants were knowledgeable of the fact that buyers of its products had accumulated a “safety stock” of inventory which ensured that the market demand forming the basis of the Company’s unbridled optimism could not be sustained. As a result, Defendants’ rosy growth and earnings projections lacked any reasonable basis in fact. These same facts, also rendered knowingly or recklessly materially false and misleading certain of Defendants’ present statements and omissions (including Martek’s financial results) during the Class Period, as further described herein.

6. Investors were completely unaware of any such issues until a March 9, 2005 investor and analyst conference call during which Defendants first acknowledged that supply concerns had caused its customers to build a moderate safety stock inventory. Yet Defendants took pains to assure investors that production would soon be “ramping up big time” while demand would be “phenomenal” and that any problems the Company might have had were in the past, thus obscuring the magnitude and effect of the safety stock issue and real problems facing Martek.
7. Defendants were successful in diverting the investment community’s attention away from the safety stock issue. They accomplished this by asserting that the Company was inhibited only by a market demand which was outstripping supply. In fact, Defendants used this fact to work to the Company’s advantage. According to Defendants, with increased capacity came “upside opportunity” and the likelihood of achieving Martek’s lofty financial and earnings goals for fiscal 2005. The Company failed, however, to disclose that an inevitable decrease in demand due to customers’ stockpiling of materials, a fact they were unmistakably aware of, would make these goals unattainable.

8. It was not until less than an hour before the market closed on April 27, 2005, the second-to-last day of the Class Period, that Defendants announced that Martek’s fiscal 2005 sales would be only $220 to $240 million -- down $70 million from Defendants’ prior guidance of $290 to $310 -- and that Martek’s customers were halting orders of DHA and ARA. The reason for customer cessation of orders, according to Defendants, was so they could “work-through” the excess inventory that they had accumulated. According to Defendants, this excess inventory had been assembled by the Company’s customers to protect against the ongoing and pervasive interruptions and shortages the customers had been experiencing in Martek’s supply of DHA and ARA. Minutes after this disclosure, trading in Martek securities was halted, and did not resume until the next day.

9. The next day, April 28, 2005, the Company held a conference call with investors and analysts. During that call, Defendants admitted that they had been aware of (yet failed to disclose) that Martek’s customers had built up enough inventory to supply themselves enough DHA and ARA to last approximately two to four months without making any further purchases from Martek. In Defendants’ own words, the safety stock “wasn’t larger than believed” and the
decision of their customers to work through this inventory would negatively impact the Company’s future revenues.

10. This announcement was a shock to investors who had been primed by Defendants’ previous Class Period statements to believe the Company’s business was growing faster than ever. The reaction was swift and punitive as the price of Martek stock was sent careening down $27.59, or 45.9%, to close at $32.49, on April 28, 2005.

11. The only ones not shocked by this disclosure were Defendants, given that since the beginning of the Class Period, they had been misleading the public about Martek by painting a glowing picture of the Company’s expected financial results for fiscal 2005. This was done despite their awareness of facts that would make it virtually impossible for Martek to sustain its revenue growth and achieve the robust numbers trumpeted by Defendants.

12. Not only was the investing public led to believe that Martek’s DHA and ARA products would continue to have record sales, analysts reporting on Martek were also led to believe Defendants’ optimistic statements and projections. For example, in a report dated December 10, 2004, an analyst from Adams Harkness reporting on Martek reiterated his strong buy rating and stated “MATK is one of our best three ideas for 2005.” In response to Martek raising its fiscal 2005 estimate, the analyst stated the following:

   We believe that management had gone much more conservative with its 2005 guidance given the impact of manufacturing restraints over the last year and we believe that the earnings momentum is about to materially change. We believe that Martek is now positioned to surpass its revenue and earnings guidance, which bodes well for investor sentiment and the valuation.

13. Martek’s ability to meet demand had been limited, and the safety stocks were necessary, because the Company had experienced a number of production interruptions including
a May 2004 fire at DSM Food Specialties ("DSM"), the Company’s primary supplier of crude ARA oils, forcing DSM to shut down its production of ARA for over a month.

14. Yet rather than disclose the true extent or impact of the customer safety stock (until the end of the Class Period), Defendants chose to mislead the public about the Company and its financial prospects, thus ensuring that the share price remained high long enough to enable them to conduct a Secondary Public Offering which took place starting on January 21, 2005 and garnered overall proceeds of $81.4 million.

15. Indeed, it was with this coveted Secondary Offering in mind that, starting in December 2004, Martek and the Individual Defendants (defined below) touted that fiscal 2005 would be a banner year and that the world’s growing dietary needs would result in increased demand for its products. They further stated that expected revenues for fiscal 2005 would be between $290 million to $310 million.

16. The Prospectus Supplement filed with the SEC on January 21, 2005 in connection with the Secondary Offering explained that a substantial portion of Martek’s sales were to its four major clients and that the Company could not guarantee these customers would continue to demand products at the current level. It also stated that “[i]f demand by any of these customers…declines, we may experience a material decline in our revenues.” Defendants failed to disclose that at the time these statements were made, and as early as the beginning of the Class Period, Defendants were already aware that Martek’s customers had accumulated a safety stock of inventory and that demand could not be sustained going forward. Because Defendants did not disclose this fact, their statements regarding “customer demand” contained material omissions rendering them false and misleading. Moreover, virtually identical statements were included in a number of other documents filed by Martek with the SEC including the Company’s 10-K for the
fiscal year ending October 31, 2004; its 10-K/A for the fiscal year ending October 31, 2004; its 10-Q for the first quarter ending January 31, 2005; and its Registration Statement/Prospectus filed August 24, 2004 and incorporated by reference into the January 21, 2005 Prospectus Supplement. As a result each of these documents was materially false and misleading.

17. The Prospectus Supplement was also materially false and misleading because it emphasized that the outlook for future revenue growth remained positive and that for fiscal 2005, the Company would continue to gain market share in existing markets. Specifically, Defendants proclaimed that capacity would increase each month throughout fiscal 2005 and eventually reach $500 million during the second half of the year, which was an indicator of increasing revenues. Defendants were aware, however, at the time these statements were made that such ambitious growth could not be sustained given the safety stock accumulated by Martek’s customers. As a result, their projections lacked any reasonable basis in fact.

18. The Prospectus Supplement also incorporated by reference the Company’s Form 10-K for the fiscal year ending October 31, 2004, a document that was itself materially false and misleading. The 10-K provided that Martek’s product sales had increased in fiscal year 2004 and the fourth quarter of fiscal 2004 due to increased sales of nutritional oils; however, Defendants failed to disclose that they knew or recklessly disregarded that such sales were due to the customers’ stockpiling, rather than true demand and thus were not sustainable.

19. During the Class Period, Defendants failed to disclose that customers would temporarily halt new purchases of Martek products – because they were no longer necessary – and instead work through the substantial “safety stock” inventory for several months worth of product that they held in their warehouses and that this would have the effect of materially decreasing demand for Martek products during the second half of fiscal 2005. Defendants also
knew that once the Company increased its manufacturing capacity and was able to assure its customers that it would be able to satisfy demand on a consistent basis (purportedly by early to mid-2005), customers would no longer need to maintain a safety stock.

20. As described more fully below, Defendants were aware during the Class Period of their customers’ stockpiling because: (i) Martek admittedly relied almost exclusively on four customers for 90% of its core business, and had extensive visibility into the customers’ inventory and demand; (ii) production and sales of DHA and ARA constitute Martek’s core business; (iii) former Martek employees interviewed by counsel for Plaintiffs confirmed the Company’s awareness that customers were hoarding months’ worth of DHA and ARA, as evidenced by the customers’ failure to return the shipping containers; (iv) once Martek brought its increased and consistent production capacity online its customers would no longer need to retain a “safety stock,” which would result in decreased demand; and (v) they had a substantial motive to commit fraud: the ability to complete a Secondary Offering of 1.7 million shares (worth $81 million) of Martek stock on January 21, 2005.

JURISDICTION AND VENUE

21. The Court has jurisdiction over the subject matter of this action pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, and Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331 and 1337. Plaintiffs’ claims arise under Sections 11 and 15 of the Securities Act, 15 U.S.C. §§ 77k, and 77o; under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.F.R. 240.10b-5.

22. Venue is proper in this District pursuant to Section 22 of the Securities Act, Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). Many of the acts and transactions
giving rise to the violations of law complained of herein, including the preparation and dissemination to the public of materially false and misleading public filings, occurred in this District.

23. In connection with the wrongful acts and conduct alleged herein, the Defendants (defined herein) directly or indirectly, used the means and instrumentalities of interstate commerce, including the United States mails and the facilities of the national securities exchange.

PARTIES

Plaintiffs

The 10(b) Plaintiffs

24. Lead Plaintiffs Jerry Reed, John Younginer, Kitisak Sowattanangkul, and Thomas Cavanaugh purchased shares of Martek common stock at artificially inflated prices during the Class Period (as demonstrated by their certifications, previously filed with the Court) and Plaintiff James Keathley purchased shares of Martek common stock at artificially inflated prices during the Class Period (as demonstrated on his certification attached hereto), and suffered damages as a result of Defendants’ conduct.

The Section 11 Plaintiff

25. Plaintiff James Keathley purchased shares of Martek common stock on January 21, 2005 pursuant to or traceable to the registration statement (as explained more fully below) and prospectus dated January 21, 2005 for the Company’s Secondary Offering (as demonstrated on his certification attached hereto) and suffered damages as a result of Defendants’ conduct.
Defendants

The Company

26. Defendant Martek is a Delaware corporation that maintains its principal place of business at 6480 Dobbin Road, Columbia, Maryland 21045. During the Class Period, Martek common stock was traded on the NASDAQ under the symbol “MATK” and the Company filed annual reports on Form 10-K and quarterly reports on Form 10-Q with the SEC. Throughout the Class Period, Martek reported its financial results on a consolidated basis and operated on a fiscal year that ended on October 31.

The Individual Defendants

27. Defendant Henry (Pete) Linsert, Jr. (“Linsert”) was, at all relevant times, the Company’s Chairman and Chief Executive Officer (“CEO”). In 1988, Linsert joined Martek as Chairman of the Board and in 1989 he became Chief Executive Officer. Linsert signed the following materially false and misleading documents filed by Martek with the SEC during the Class Period: (i) the Company’s Registration Statement/Prospectus filed with the SEC on Form S-3/A on August 24, 2004 which served as the Registration Statement for the Supplemental Prospectus filed with the SEC on January 21, 2005; (ii) the Form 10-K for the fiscal year ended October 31, 2004; (iii) the Form 10-K/A for the fiscal year ended October 31, 2004 and (iv) the Form 10-Q for the first quarter ended January 31, 2005.

28. Defendant Peter L. Buzy (“Buzy”) was, at all relevant times, the Company’s Chief Financial Officer (“CFO”) and Treasurer. Buzy joined Martek in 1998 as Chief Financial Officer. Prior to joining Martek, Buzy spent 13 years with the accounting firm of Ernst & Young LLP. Buzy signed the following materially false and misleading documents filed by Martek with the SEC during the Class Period: (i) the Company’s Registration
Statement/Prospectus filed with the SEC on Form S-3/A on August 24, 2004, which served as the Registration Statement for the Supplemental Prospectus filed with the SEC on January 21, 2005; (ii) the Form 10-K for the fiscal year ended October 31, 2004; (iii) the Form 10-K/A for the fiscal year ended October 31, 2004 and (iv) the Form 10-Q for the first quarter ended January 31, 2005.

29. Defendants Linsert and Buzy are collectively referred to hereinafter 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 possession of such information, the Individual Defendants knew or recklessly disregarded the fact that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

30. Each of the Individual Defendants was privy to confidential and proprietary information concerning Martek, its operations, finances, financial condition, and present and future business prospects. 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 that were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as
those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

31. 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 were traded on the NASDAQ and governed by the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information 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 false and/or misleading, 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.

**SUBSTANTIVE ALLEGATIONS**

**Background**

32. Founded in 1985, Martek began trading on NASDAQ under the symbol MATK in November 1993. Since that time, Martek has engaged in the research and development of products derived from microalgae, particularly DHA and ARA, both of which are used in the production of infant formulas.

33. Martek sells oils containing DHA and ARA, under the names DHASCO and ARASCO, respectively, and licenses these formulas for supplementary use in infant formulas. According to the Company’s SEC filings, approximately 90% of Martek’s product sales revenue is generated by sales of DHA and ARA to four particular customers: (1) Mead Johnson Nutritionals, under the Enfamil LIPIL brand; (2) the Ross Products Division of Abbott...
Laboratories, under its Similac, Isomil and Neosure brands; (3) Nestle, under its Good Start Supreme DHA and ARA brand; and (4) PBM Products using infant formula manufactured by Wyeth under the brand name “Bright Beginnings” and under the private label brand for Wal-Mart, Parent’s Choice. Of those sales, 55% are to Mead Johnson while the remaining 45% are to Wyeth, Abbot Laboratories and Nestle.

34. Martek relies on DSM (the Company’s primary supplier of crude ARA oils) for 100% of such oils it sells. Martek manufactures its own DHA oils at its fermentation and oil processing facilities located in Winchester, Kentucky, and Kingstree, South Carolina.

35. Throughout the Class Period, Martek boasted that doctors and health professionals began to appreciate the health benefits of DHA to infants, pregnant mothers and children. In its SEC filings, Martek stated that it was instrumental in sponsoring studies, in conjunction with investigators at the National Institutes of Health, to understand the relationship between low levels of DHA and a variety of health risks, including increased cardiovascular problems, Alzheimer’s disease and other neurological and visual disorders. According to Martek, the results of these studies demonstrated that DHA and ARA are beneficial to, and important for, infant brain development.

36. In light of the ongoing studies that demonstrated the health benefits of DHA and ARA, Martek, according to Defendants, was poised for success. Demand for Martek’s products was on the rise, however, Martek was not able consistently to meet customer supply needs because of serious production problems. As a result, as soon as product would come in, it would immediately be shipped out to customers, leaving Martek without a significant inventory stock. This was due in part to Martek’s reliance on DSM for its exclusive production of ARA and the
incapability of Martek’s existing production facilities to produce DHA consistently enough to meet customer needs.

37. In order to keep pace with demand and correct customer supply woes, Martek embarked on a $180 million expansion of its production facilities at Kingstree, South Carolina and Winchester, Kentucky. In addition, Martek claimed that it was diligently searching for alternative suppliers of ARA so that it was not solely dependent on DSM and that it would begin to produce ARA internally.

38. Martek continued to promise investors that once its Kingstree, South Carolina facility was fully up and running, its supply problems would be a thing of the past. Indeed, Defendants issued numerous statements touting the Company’s reportedly up-trending financial results and future prospects, particularly due to the health benefits of DHA and ARA as confirmed by various health organizations, including the federal Food and Drug Administration (“FDA”).

39. The Individual Defendants assured investors that the market for DHA and ARA was on the rise and would continue to prosper. For instance, during a conference call in October 2004, Defendant Linsert bragged to investors, “[w]e see strong demand going into ’05. And it just seems right now no signs that things are slowing down.”

40. Against this backdrop, the Class Period begins.

Martek was Aware that Its Customers were Building a Substantial Safety Stock

41. Several former Martek employees have confirmed that by at least the beginning of the Class Period, December 9, 2004, it had become obvious to Defendants that Martek’s customers were building a substantial safety stock of its nutritional oils. This pattern of behavior was hardly difficult to identify given that 90% of Martek’s product sales revenue was generated
by sales to four particular customers, as described above. Additionally, it became well known to employees at Martek that its customers had begun to deviate from their longstanding practice of timely returning the shipping containers in which its products were transported. In fact, as evidence of Defendants’ knowledge of the failure of Martek’s customers to return the shippers, at the beginning of the Class Period, the Company was forced to make rush orders to buy additional containers to replace those being held by customers. One of Martek’s former data processors in the Company’s Winchester Kentucky facility from 2002 to 2003 (before the beginning of the Class Period) (“Witness 1”) recalled how important it was for customers to keep the product in the shipping containers, explaining that when such containers were opened, the materials could become contaminated and would have to be discarded. Thus, the fact that customers were holding onto the containers meant they were holding onto a reserve supply of the product; materials were best kept in unopened containers, and customers would have no reason to keep empty shippers.

42. According to a former Martek fermentation technician in the Company’s Winchester, Kentucky facility who worked for Martek from August 2003 through August 2005 (“Witness 2”), Martek customers were building a safety stock, which would have been well known by the Company. Witness 2 stated that Martek would ship its product to its customers via drums put in expensive “shippers.” A shipper is a large container that is used to store the DHA and ARA. These shippers were reusable and once the customer received the product, it would send the shippers back to Martek to be reused. Witness 2 and other workers began to realize that the Company’s four customers were building a safety stock because none of them was sending the shippers back. According to Witness 2, “our customers were stockpiling our materials
somewhere in their warehouses, and they weren’t giving the shippers back to us so we had to buy more.”

43. Similarly, a former Martek Maintenance/Engineering Manager in the Company’s Winchester, Kentucky facility who worked for Martek from 2002 through February 2005 (“Witness 3”) confirmed that customers failed to return the shippers and that, accordingly, it was clear that customers were building safety stock. Witness 3 verified that around the beginning of the Class Period, Martek had to rush order fifty more of the 800 liter shippers to send to its customers because the customers were not returning the shippers. At one morning meeting, Plant Manager Greg Champe and Logistics Manager Mike Davis told Witness 3 and other employees that “they [customers] weren’t sending them back because they were storing them. They haven’t used them yet- Mead Johnson, Wyeth, and Abbott Labs. They would have to ship them back when they were finished with them as soon as possible.”

44. A former Martek Warehouse/Packaging Manager in the Company’s Winchester, Kentucky facility who worked for Martek from January 2004 through June 2004 (“Witness 4”) confirmed that when the Company started running low on shippers (“stainless steel tanks that are on stands”), it would make calls to customers to ask for their return. Though Witness 4’s employment with the Company terminated a few months before the Class Period began, this witness had first hand knowledge of Martek’s procedures to keep track of its containers. Witness 4 explained that before each shipper went out, it was given a tracking number and it was up to the Materials Director, and that person’s staff, to document the dates on which the shippers went out as well as the number of shippers being used. According to Witness 4, “somebody had to maintain inventory of these things. You wouldn’t have a $10,000 container that you didn’t know where it was…. It would be like a railroad company not knowing where their cars are….If they
were sitting there with solution in them then you would know that there’s inventory building there.”

45. A former Warehouse Technician in the Company’s Winchester, Kentucky facility who worked for Martek from March 2003 through August 2005 (“Witness 5”) acknowledged that the Company’s shippers were not returned by some of its customers. According to Witness 5, “I know we ran out of them and we had to call our customers.”

46. Given the integral role Martek’s shippers played in the Company’s business, the emphasis placed by the Company on being able to account for the whereabouts thereof, statements by several former Martek employees that by the beginning of the Class Period, the Company was running low on shippers, it is a reasonable inference that the Individual Defendants, occupying high-level positions at Martek and intimately involved in the Company’s daily operations, were aware that the shippers were not being returned and that customers were likely stockpiling inventory.

47. This is especially true given the Company’s own statements in its 10-K that the “entire business is comprehensively managed by a single management team that reports to the Chief Executive Officer” and that the Company “does not operate any material separate lines of business or separate business entities with respect to its products or product candidates.” It is thus fair to infer that Linsert, as the CEO, and Buzy, as the CFO, were privy to the intricacies and daily operations of the Company, including customers’ stockpiling.
MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS DURING THE CLASS PERIOD

Fourth Quarter and Fiscal Year 2004

December 9, 2004 Press Release

48. On December 9, 2004, Martek issued a press release announcing record fourth quarter and fiscal year 2004 results, including revenues of $59.7 million for the fourth quarter of 2004, an increase of 54% over the $38.6 million from the fourth quarter of 2003, as well as revenues of $184.5 million for the year ended October 31, 2004, up 61% from the $114.7 million in revenues from the previous year. The press release went on to provide in relevant part:

[T]he Company continues to add manufacturing capacity and expand its business to meet market demand for its products.

*   *   *

Recent Highlights

Production and Supply of Nutritional Oils -- Since fiscal 2003, the demand for the Company's nutritional oils for use in infant formula products has significantly exceeded production capacity. These shortfalls have resulted from an acceleration of such demand over what customers had projected coupled with a shortage of ARA production capacity from DSM that began in the first quarter of fiscal 2004.

49. Commenting on these results, Defendant Linsert remarked, “Martek continued its robust growth in earnings and revenue in the fourth quarter.”

50. The statements regarding Martek’s “continued…robust growth” and its record results for the fourth quarter and fiscal year 2004 were materially false and misleading because at the time they were made, Defendants knew or recklessly disregarded, yet failed to disclose, that the revenues they reported included revenues from customers’ purchasing of safety stock in anticipation of supply shortfalls, and were thus not a product of true demand. The statements also omitted that the sales increases were not sustainable and thus would reduce Martek’s
anticipated future sales. See infra, Section entitled, “Defendants’ Violation of GAAP and SEC Rules” (hereinafter “GAAP Section”).

51. The press release also declared that “[t]he Company is in the process of a significant production expansion including additional ARA production from DSM.” Such initiatives included the following:

   (a) A restarting of the ARA production line at the Belvidere, New Jersey manufacturing plant of DSM and an expansion of this plant over the next twelve to sixteen months;

   (b) A scaling up of internal production of ARA at both the Company’s Winchester, Kentucky and Kingstree, South Carolina facilities; and

   (c) The launching of new DHA-based products, including one by Mead Johnson (the company which by far held the largest piece of the 90% of Martek’s product sales revenue generated by its four largest customers).

52. Commenting upon such projects, as well as the revenues reported for the fourth quarter and the full year, Linsert proclaimed that “[t]his growth is expected to continue throughout 2005 as the Kingstree facility expands production and demand grows from existing and new products.”

53. The statements projecting continued growth in 2005 due to such expansion were materially false and misleading and lacked any reasonable basis because Defendants, aware that the shippers in which they transported their products were not being returned by their customers, knew but failed to disclose that: (i) the market demand and continued growth Defendants boasted was not sustainable but, rather, was only temporary, and the result of the fact that its customers were building a safety stock to combat Martek’s supply issues; and (ii) once Martek
had resolved its production and supply problems, customers would need to work through a several month safety stock of DHA and ARA before ordering and purchasing new products from Martek.

54. To maintain the illusion of continued strong growth, Defendants were eager to discuss plans for increased production capacity so that such capacity could finally catch up to demand and the Company could continue the growth it reported in the fourth quarter of 2004. They failed to mention, however, that due to their customers’ stockpiling of inventory, the demand would simply not be there to allow growth to continue as they had represented. As a result, the statements contained in the December 9, 2004 press release were materially false and misleading.

**December 9, 2004 Conference Call**

55. Also on December 9, 2004, Defendants held an “investor conference call webcast,” during which investors were invited to listen to the live broadcast of Martek’s senior management discussing the Company’s fourth quarter and fiscal 2004 year end results with securities analysts. Investors were also afforded the ability to listen to replays of the webcast over the following two weeks.

56. During the investor conference call webcast, Defendants reiterated Martek’s fourth quarter and fiscal 2004 year end results. These statements were knowingly or recklessly materially false and misleading for the reasons stated in ¶50 above.

57. During the investor conference call webcast, Defendant Linsert addressed Martek’s efforts to build its own inventory supply. Specifically, Defendant Linsert stated, “[A]lso we expect this next year to be in the process of building up inventory that would cushion us against any potential shocks that would -- with regard to production.” Linsert also discussed
the financial prospects of Martek going forward. He touted, “We expect a continued growth. We should see the top line up around 300 million with upside potential. We should – and that’s coming from more DHA and ARA production as I mentioned earlier.” (emphasis added).

58. Defendant Buzy also commented on Martek’s efforts to alleviate supply problems. He added, “[t]hese fourth quarter results cap off a year of outstanding growth in which we have significantly increased production to narrow the demand supply gap for our products.” He also projected:

Capacity is expected to increase each month throughout 2005, and we expect to reach annual capacity rate equivalent to approximately $500 million of sales during the second half of 2005.

*  *  *

With significantly new capacity coming online, we will continue to shrink the demand-supply gap that currently exists for infant formula products. As such, we expect to achieve revenues in 2005 of between 290 and 310 million, an equivalent to 57 to 68% growth over 2004.

*  *  *

First quarter revenues are expected to reach between 64 and 65 million, as ARA capacity increases from continued scale-up of existing fermenters at DSM’s US facility. Martek’s ARA fermentation is expected to provide second quarter upside improvement, but will not be available in the first quarter.

59. In response to a series of questions from an analyst with Smith Barney regarding revenue guidance, Buzy replied, “The range that we gave was $290 to $310 million. We have an excellent visibility on that level of range so it’s primarily our core business.” (emphasis added). He also added, “[a]nd I think we are currently being conservative in connection with our guidance for the year. There is upside in connection with new deals. The guidance includes basically kind of our core business.”
60. Defendants’ statements during the December 9, 2004, investor conference call webcast, including as repeated by analysts in reports the following day (described below), were materially false and misleading, and Defendants’ projections for continued growth in fiscal 2005 also lacked any reasonable basis in fact. Aware that the shippers in which they transported their products were not being returned by their customers, Defendants knew and failed to disclose that the Company would not be able to generate revenues of $290 to $310 million in fiscal year 2005 because: (i) the market demand touted by Defendants was not sustainable but, rather, was only temporary and the result of the fact that Martek’s customers were building a safety stock to combat Martek’s supply issues; and (ii) once Martek had resolved its production and supply problems, customers would need to work through a several month safety stock of DHA and ARA before ordering and purchasing new products from Martek.

61. Defendants’ materially false and misleading statements and omissions made at the investor conference call webcast were made not only directly to investors, they were also made to analysts with the understanding and expectation that they would be widely disseminated to the investing public. Defendants provided guidance to securities analysts and used analysts as a conduit to provide materially false and misleading information to the securities markets. Many of the analyst reports issued during the Class Period were remarkably similar to or reported substantially the same facts offered by Defendants who engaged in such communications with analysts to cause or encourage them to issue favorable reports concerning Martek. The statements had their intended effect as several analysts reiterated their favorable ratings with respect to the Company and raised their price targets in the wake of the December 9, 2004 investor conference call webcast. For example:
(a) Citigroup analyst Elise Wang issued a report on December 10, 2004 noting Martek’s better than expected fourth quarter revenues and reiterating her “Buy” rating on the stock. She noted that Martek’s revenue guidance of $290 to $310 million for fiscal year 2005 was too conservative and predicted a total revenue forecast of $337 million. She also reported that upside opportunity existed with the ramp-up in revenues and earnings expected as the company increased its capacity to manufacture DHA and ARA. According to Wang, the increased capacity would allow the Company to support $500 million in annualized sales by mid-fiscal 2005;

(b) D.A. Davidson & Co. analysts Timothy S. Ramey and Benjamin Cooper issued a report on December 10, 2004 reiterating a “Buy” rating on the stock and noting that fourth quarter revenue rose 54%, ahead of their expectations. They also stated that Martek’s revenue guidance of $290 to $310 million for fiscal year 2005 was too conservative and provided their own estimate at $350 million, while noting that production was expected to ramp up;

(c) Needham analysts Dalton L. Chandler and Mark Monane reiterated their “Strong Buy” rating on the Company’s stock in their December 10, 2004 report, noting a “very strong” fourth quarter and an $80 price target. They suggested the $290 to $310 million guidance offered by the Company was “well below the likely actual results,” setting their number at $310 million but stating that even this was too low. They also predicted that with the ramping up of production, average capacity for the year would be around $380 million and reach $500 million in the second half of the year; and

(d) Adams Harkness analyst Scott Van Winkle issued a report on December 10, 2004 maintaining his “Strong Buy” rating on the Company’s shares and raising his revenue
estimate for fiscal year 2005 to $300 million. He predicted fiscal 2005 would be a strong year for the Company, noting that increased capacity could support revenues of $500 million.

62. As a result of Defendants’ statements, and the dissemination thereof to the investing public, the price of Martek common stock rose from a closing price of $40.75 per share on December 9, 2004 to a closing price of $46.74 on December 10, 2004. The following Monday, December 13, 2004, the market continued to digest Defendants’ statements, and pushed the stock even higher, to a close of $50.71 per share.

**Secondary Offering**

63. On January 21, 2005, Martek filed with the SEC a Prospectus Supplement for the Secondary Offering on Form 424b5 (the “Prospectus Supplement”) that incorporated by reference the Registration Statement/Prospectus filed with the SEC on August 24, 2004 on Form S-3/A. With the filing of the Prospectus Supplement, the Company announced that it was offering approximately 1.7 million shares of Martek common stock. (“Secondary Offering”). Both Defendant Buzy and Defendant Linsert signed the Registration Statement/Prospectus. The Prospectus Supplement was issued pursuant to the August 24, 2004 Registration Statement.

64. In a section titled “Risk Factors,” the January 21, 2005 Prospectus Supplement contained the following language:

* A substantial portion of our nutritional oil products sales are made to four of our existing customers under agreements with no minimum purchase requirements. If demand by these customers for our nutritional oil products declines, our revenues may materially decline.

We rely on a substantial portion of our sales of nutritional products to four of our existing customers. Approximately 90% of our product sales revenue during fiscal 2004 was generated by sales of DHA and ARA to four customers. Approximately 55% of these sales were to Mead Johnson and the remaining sales were to Wyeth, Abbott Laboratories and Nestle combined. **We cannot guarantee that these customers will continue to demand our nutritional products at current levels.** If demand by
any of these customers for our nutritional products declines, we may experience a material decline in our revenues. (emphasis added).

65. Defendants’ statements, as contained in the Prospectus Supplement, were materially false and misleading because while Defendants acknowledged that Martek’s revenues could decline if demand by any of its four major customers decreased, and that they “cannot guarantee” that demand would continue at current levels, Defendants failed to disclose that at the time these statements were made, and as early as the beginning of the Class Period, they already were aware that due to the safety stock which had been accumulated by their customers in anticipation of possible production shortages, the demand for Martek’s products could not be sustained. They were also aware that as a result, once Martek resolved its production and supply problems, customers would need to work through their several month safety stock of DHA and ARA before ordering and purchasing new products. Thus when Defendants made these statements, they were materially false and misleading.

66. The statement above was repeated in several other documents filed by Martek with the SEC including an exhibit to the Form 10-K for the fiscal year ended October 31, 2004, filed on January 13, 2005; the Form 10-K/A for the fiscal year ended October 31, 2004, filed on January 21, 2005; and a Prospectus Supplement filed January 14, 2005. Additionally, virtually identical language was contained in an exhibit to the Form 10-Q for the quarterly period ended January 31, 2005, filed on March 14, 2005 as well as the Registration Statement/Prospectus filed on Form S-3/A on August 24, 2004 incorporated by reference into the January 21, 2005 Prospectus Supplement. The inclusion of this language renders each of the aforementioned documents false and misleading for the reasons stated above.

67. In connection with future growth as well as supply and demand, the August 24, 2004, Registration Statement/Prospectus provided in part:
We estimate the worldwide infant formula market to be approximately $8.5 billion to $9.5 billion. If our licensees were to penetrate 100% of this market with DHA and ARA supplemented formulas, we estimate that we would receive greater than $400 million in revenues annually from these sales.

* * *

We anticipate annualized production capacity equaling approximately $275 million to $300 million of annualized sales by the end of fiscal 2004 and $500 million of annualized sales by the second half of fiscal 2005.

68. With respect to future growth and prospects, the January 21, 2005 Prospectus Supplement provided in part:

Capacity is expected to increase each month throughout fiscal 2005 and we expect to have production capacity equivalent to approximately $500 million in annualized sales of our nutritional oils during the second half of fiscal 2005 based on current prices.

* * *

We believe that the outlook for future revenue growth remains positive, although quarterly results may show fluctuations, particularly if we experience unforeseen variances in production. Specifically, we believe that for fiscal 2005, current term infant formula products containing our oils will continue to gain market share in existing markets, new products will be added in those markets, and term infant formulas containing our oils will also be introduced in additional countries.

69. In the Prospectus Supplement, Defendants also offered myriad statements to suggest that the future success of nutritional oil sales was limited solely by capacity constraints:

Our future sales growth,...is dependent upon our ability to expand our production capabilities [at the Kingstree facility] and the ability of DSM to continue to expand production of ARA [at the Belvidere, New Jersey and Capua, Italy facilities].

* * *

To achieve sufficient revenue from our nutritional oils, we must be able to produce sufficient quantities of our nutritional oils at approved facilities.

* * *
The commercial success of our nutritional oils will depend, in part, on our ability to manufacture these oils or have them manufactured at large scale and at a commercially acceptable cost.

70. These statements were materially false and misleading, and the projections for growth in fiscal 2005 also lacked any reasonable basis, because Defendants were aware, at the time the statements were made, that even if they were to successfully “ramp up” production, the demand did not exist to support their growth projections. Aware that the shippers in which they transported their products were not being returned by their customers, Defendants knew and failed to disclose that: (i) the market demand touted by Defendants was not sustainable but, rather, was only temporary and the result of the fact that its customers were continuing to build a safety stock to combat Martek’s supply issues; and (ii) once Martek had resolved its production and supply problems, customers would need to work through their several month safety stock of DHA and ARA before ordering and purchasing new products from Martek.

71. On January 26, 2005, the Secondary Offering closed and Martek announced that it had sold 1,756,614 shares for overall proceeds of $81.4 million. The sale included 1,527,490 shares of common stock and the underwriters’ option to purchase 229,124 additional shares of common stock to cover over-allotments.

First Quarter 2005

March 9, 2005 Press Release

72. On March 9, 2005, Martek issued a press release announcing results for the first quarter of fiscal 2005, including revenues of $66.5 million, an increase of 87% over the $35.6 million in revenues from the first quarter of fiscal 2004. The press release went on to provide in relevant part:

[T]he Company continues to add manufacturing capacity and expand its business to meet market demand for its product.
Recent Highlights

Expanded the Kingstree Production Facility -- Martek is nearing completion of its extensive expansion in Kingstree for the fermentation and downstream processing of the Company’s nutritional oils.

73. Commenting on these results, Defendant Linsert stated, “[f]inancially Martek’s first quarter of 2005 was a good one and the numbers speak for themselves.”

74. The statements regarding Martek’s impressive first quarter results as compared to the first quarter of the previous year, contained in the March 9, 2005 press release, were materially false and misleading because at the time they were made, Defendants knew or recklessly disregarded, yet failed to disclose, that the revenues they reported included revenues from customers’ purchasing of safety stock in anticipation of supply shortfalls, and were thus not a product of true demand. The statements also omitted that the sales increases were not sustainable and thus would reduce Martek’s anticipated future sales. See infra, GAAP Section.

75. The press release also declared that with its expansion, the Company expected to have production capacity equivalent to approximately $500 million in annualized sales by the second half of fiscal 2005, which was an indicator of increasing revenues.

76. Such projections were materially false and misleading and lacked any reasonable basis because Defendants, aware that the shippers in which they transported their products were not being timely returned by their customers, knew but failed to disclose that: (i) the market demand and continued growth Defendants boasted was not sustainable but, rather, was only temporary, and the result of the fact that its customers were building a safety stock to combat Martek’s supply issues; and (ii) once Martek had resolved its production and supply problems,
customers would need to work through their several month safety stock of DHA and ARA before ordering and purchasing new products from Martek.

**March 9, 2005 Conference Call**

77. Also on March 9, 2005, Defendants held an “investor conference call webcast,” during which investors were invited to listen to the live broadcast of Martek’s senior management discussing the Company’s first quarter of fiscal 2005 results with securities analysts. Investors were also afforded the ability to listen to replays of the webcast over the following two weeks.

78. During the investor conference call webcast, Defendant Linsert opened by proclaiming that the first quarter was “a good one.” Defendant Buzy then detailed the successes of the first quarter, reporting that revenues increased 87% over the first quarter of fiscal 2004, and that product sales increased 13% over the fourth quarter of fiscal 2004, results driven by increases in ARA production and demand for products sold to Mead Johnson.

79. Defendants’ statements during the March 9, 2005 conference call regarding Martek’s first quarter results were knowingly or recklessly materially false and misleading for the reasons stated in ¶74 above.

80. Defendants also revealed during the March 9, 2005 investor conference call webcast that results for the second quarter of fiscal 2005 would be disappointing due to production shortfalls, but Defendant Linsert made positive assurances that supply would be coming in “big time” in both the third and fourth quarters, leading to an adequate finished goods inventory. Commenting on Martek’s supply and inventory projections, Defendant Buzy stated:

> Prior to our customers expanding sales, Martek must first build finished goods inventory. We should be in this position in our third quarter. During the past two years, we have been on allocation basis with our infant formula customers. As product launches in new countries have
been limited due to immediate supply concerns, higher production levels in the past two quarters have allowed our customers to build a moderate level of safety stock inventory.

* * *

We are now in a production level of approximately between $280 and $300 million of annual product sales, and with this additional capacity we are on track to reach our annual capacity goals of near half a billion dollars or $500 million in the second half of the year. Between ARA expansions at Martek and DSM and third party suppliers, we expect to reach levels of production necessary to exceed Q3 demand and build finished goods inventory.

* * *

The reduction in revenues in the second quarter will impact our annual revenue guidance as we will not be able to make up for these lost sales . . . . [G]uidance will be at the low end of our current revenue range

81. Regarding the third and fourth quarters of 2005, Linsert went so far as to say that he was “more optimistic about Martek’s future over the next twelve to eighteen months” than at any time since he had been at the Company. He went on to say that demand “looks great right now, it could be phenomenal.”

82. While Defendants acknowledged the second quarter of fiscal year 2005 would be negatively affected by production shortfalls, they still maintained that with the “ramping up” of production in the third quarter, all problems would be behind them, and guidance for the year would still be within the $290 to $310 million range, albeit at the low end. Such statements were materially false and misleading because at the time, Defendants were aware that their customers had built up a sizeable safety stock of their products, and that even if they were to increase capacity in the second half of fiscal year 2005, the demand would not exist to enable them to reach their revenue projections for the fiscal year. In fact, despite Buzy’s statement that customers had built up a “moderate level of safety stock inventory” during the two prior quarters,
he failed to disclose the true magnitude of that safety stock or the effect it would have on future demand and, thus, projected revenues.

83. Defendants’ materially false and misleading statements and omissions made during the March 9, 2005 investor conference call webcast were made not only directly to investors, they were also made to analysts with the understanding and expectation that they would be widely disseminated to the investing public. Defendants provided guidance to securities analysts and used analysts as a conduit to provide materially false and misleading information to the securities markets. Many of the analyst reports issued during the Class Period were remarkably similar to or reported substantially the same facts offered by Defendants who engaged in such communications with analysts to cause or encourage them to issue favorable reports concerning Martek.

84. Significantly, in the days following this call, analysts were eager to address the positive points made by Defendants, and showed no concern over the safety stock disclosure. For example:

(a) Citigroup analyst Elise Wang issued a report on March 9, 2005 reiterating her “Buy” rating on the Company. While she noted that a production shortfall would cause a downturn in the second quarter, she predicted that as production was increased, a ramp-up in sales would occur in the third and fourth quarters, recognizing that demand for Martek’s nutritional oils still exceeded the Company’s capacity, and upside opportunity existed as capacity became available. Wang stated Martek was on track to support an annualized run rate of $500 million by mid-fiscal 2005;

(b) Needham analysts Dalton L. Chandler and Mark Monane issued a report on March 10, 2005 reiterating their “Strong Buy” rating for Martek, opining that the production
problems plaguing the Company in the second quarter would be a short-term issue that would have no long-term effect on the Company’s value. Chandler and Monane noted that the greatest impediment to Martek’s shares was the ability to increase production to meet demand, but they also noted the various plans underway to increase capacity. As a result, they increased their revenue estimate to $292 million for the fiscal year and predicted the Company would reach $500 million in run-rate capacity;

(c) D.A. Davidson analysts Timothy S. Ramey and Benjamin Cooper issued a report on March 11, 2005 reiterating their “Buy” rating on the Company, suggesting that the supply problems affecting the second quarter were a temporary concern and that new capacity would lead to a recovery in the second half of fiscal 2005;

(d) Adams Harkness analyst Scott Van Winkle issued a report on March 10, 2005 reiterating his “Strong Buy” rating on Martek, opining that the second half of fiscal 2005 would be unaffected by the issues affecting the second quarter. Noting that capacity would double over the following months, he predicted $286.5 million in revenues for the full year.

85. The statements made by Defendants during the March 9, 2005 investor conference call webcast, including as repeated by analysts in reports thereafter, were materially false and misleading, and Defendants’ projections for continued growth in the second half of fiscal 2005 also lacked any reasonable basis, because even though Defendants acknowledged that their customers had been stockpiling inventory, they knew and failed to disclose: (i) the extent of this practice; (ii) that they had been aware of such stockpiling since at least the beginning of the Class Period yet had never disclosed the effect it was likely to have on revenues going forward; and (iii) that customer work-through of safety stock would lead to a decrease in
demand, making it virtually impossible for the Company to meet its revenue projections for fiscal year 2005. Therefore, such projections lacked any reasonable basis in fact.

86. The false and misleading statements made by Defendants during this conference call had their intended effect as analysts were in agreement that the biggest issue plaguing the Company was a production shortfall and that with increased capacity, Martek would have a strong second half of fiscal 2005. Importantly, not one analyst viewed the customers’ safety stock as a concern.

THE TRUTH BEGINS TO EMERGE

The April 27, 2005 Press Release

87. At 3:40 P.M. EST, on April 27, 2005, Martek 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 provided in part:

[W]e 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 . . .

88. The news that Martek was lowering its revenue estimates led to, minutes later, a trading halt of the Company’s stock. Trading in Martek stock did not resume until the next day.
The April 28, 2005 Conference Call

89. On April 28, 2005, Martek held an investor conference call webcast for investors and analysts. Although Defendants touched on the safety stock problem discussed in the April 27, 2005 press release, the full extent of Defendants’ knowledge concerning this problem only began to be revealed through the probing questions of analysts.

90. Specifically, in response to analysts’ questions, Defendants Linsert and Buzy commented on the supply and inventory problems. Buzy admitted that he was aware, since at least the prior quarter (i.e., at least the beginning of the Class Period), that Martek’s customers had been building on their inventory. He conceded:

The good news is as . . . is that our production levels of DHA and ARA are catching up to demand, this will allow us to go to our customers, to give them the confidence level that they’ll need for hopefully complete conversion in the space, and further international market expansion. The bad news is that there is some lasting effects of the previous shortfall. We became aware I guess about -- probably about a quarter ago that some of our customers had built some level of safety stock, only recently became aware of the size of this safety stock. It wasn’t larger than believed. As our customers had gained confidence in the supply of DHA and ARA, they decided to decrease their holdings at safety stock inventory and that’ll reduce our sales level in the third quarter. In addition, prior shortfalls and inconsistent [DS] supplies have caused some of our customers to slow international expansion plans. So, I think we have that fixed now or in the process of talking to our customers and giving them the assurances they need. (emphasis added.)

91. Scott Van Winkle, an analyst from Adams Harkness, asked, “you had to [know] your customers were going to beef [sic] up their orders to increase their allocation, and you only have four major customers [sic], I mean how could you not manage this?”

92. In response, Buzy stated:

[Y]ou know we -- you are true, we have four five major customers, we do not have the ability to look under the hood of any of our customers. There is a combination of both U.S. international sales that are part of the effective pipeline. We have --we are given four tasks from these
customers you know in very large numbers, and up to date have been selling almost every drop and material that we can make. You know, just recently we’ve become aware of the size of the backlog or their safety stock, we are in discussion with them now, they are getting their comfort level we think they need for additional extension, but unfortunately, it was a surprise to Martek.

93. The analyst from Adams Harkness also asked Buzy when the inventory build-up began. In response, Buzy admitted that customers had been hoarding product for multiple quarters. He replied, “I don’t think we exactly know, but what I can tell you is most likely over the last maybe three or four quarters they have been building some level of safety stock.”

94. After the conference call, the price of Martek stock, which had traded as high as $70.49 during the Class Period, plunged from a closing price of $60.08 per share on April 27, 2005, to close at $32.49 per share on April 28, 2005 on enormous trading volume.

**DEFENDANTS’ VIOLATION OF GAAP AND SEC RULES**

95. During the Class Period, the Company represented that Martek’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, the Company violated GAAP and SEC reporting requirements by filing periodic reports with the SEC that did not accurately disclose the reasons for the material sales increases, its effect on reported revenues and earnings during the Class Period, and its negative impact on future periods.

96. 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.

97. During the Class Period, Martek experienced increased demand due to customers stockpiling product in order to protect themselves from supply shortages. As a result, the Company experienced material increases in revenues and achieved its revenue (and earnings) estimates. Defendants, however, failed to disclose the reasons for the substantial revenue increases and the impact on reported revenues and earnings as required by SEC reporting requirements.

98. Defendants knew or recklessly disregarded that the Company’s public filings during the Class Period were materially false and misleading because they failed to comply with the disclosure obligations under the SEC’s rules and regulations, including, among other things, the rules and regulations concerning Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”). See 17 C.F.R. § 229.303. In this regard, Defendants knew or recklessly disregarded that their MD&A disclosures were false and misleading because: (i) Martek relied almost exclusively on four customers for 90% of its core business, and had extensive visibility into the customer’s inventory and demand; (ii) production and sales of DHA and ARA constitute Martek’s core business; (iii) former Martek employees interviewed by counsel for Plaintiffs stated that the Company knew that customers were hoarding months worth of DHA and ARA; and (iv) Defendants knew or recklessly disregarded
that once Martek brought its increased production capacity online that its customers would no
longer need to retain a “safety stock,” which would result in decreased demand.

99. During the Class Period, Martek’s MD&A favorably compared its results for the
comparable period of the prior year but failed to disclose that those results were not comparable
or sustainable, since Martek’s reported revenues included revenues from customers’ purchasing
of safety stock due to anticipated supply issues rather than based on true demand. For example,
in Martek’s Form 10-K filed with the SEC on January 13, 2005, which was signed by both
Defendant Buzy and Defendant Linsert as well as incorporated by reference into the January 21,
2005 Prospectus Supplement, Defendants represented that “[p]roduct sales increased by $58.3
million or 52% in fiscal 2004 as compared to fiscal 2003, primarily due to a continued increase
in sales of our oils to both existing and new infant formula licensees.” Similarly, in Martek’s
Form 10-Q filed with the SEC on March 14, 2005, which was also signed by both Defendant
Buzy and Defendant Linsert, the Company disclosed that “[p]roduct sales increased by $30.9
million or 96% in the quarter ended January 31, 2005 as compared to the quarter ended January
31, 2004, primarily due to a continued increase in sales of our oils to both existing and new
infant formula licensees.”

100. The foregoing statements were materially false and misleading in that they failed
to disclose that the product sales increases were due to customers stockpiling product rather than
based on true demand. The disclosures also omitted that the sales increases were not sustainable
and thus would reduce Martek’s anticipated future sales. Item 303 of Regulation S-K requires
public companies to disclose “known trends or uncertainties that have had or that the registrant
reasonably expects will have a material favorable or unfavorable impact on net sales or revenues
or income from continuing operations.” Item 303 of Regulation S-K, 17 C.F.R. §
229.303(a)(3)(ii); see also Exchange Act Release No. 34-26831 (“Interpretative Release”), 43
SEC Docket 1577 (May 18, 1989) (“Required disclosure is based on currently known trends,
events, and uncertainties that are reasonably expected to have material effects.”) (Emphasis
added.) The Instructions to Paragraph 303(a) (4) further state:

Where the consolidated financial statements reveal material changes from
year to year in one or more line items, the causes for the changes shall be
described to the extent necessary to an understanding of the registrant’s
businesses as a whole . . . .

101. Accordingly, in reporting its improved revenues (and earnings) during the Class
Period, Martek failed to disclose that a material element of those improved results was due to
customers retaining “safety stock” due to fears related to anticipated product shortages, even
though SEC rules required such disclosures.

102. It is precisely because such “qualitative” information is important to investors that
the SEC requires corporations to discuss their businesses and interpret their results. As the
Securities Act Release No. 6711 states:

The Commission has long recognized the need for a narrative explanation
of the financial statements, because a numerical presentation and brief
accompanying footnotes alone may be insufficient for an investor to judge
the quality of earnings and the likelihood that past performance is
indicative of future performance. MD&A [Management Discussion and
Analysis] is intended to give the investor an opportunity to look at the
company through the eyes of management by providing both a short and
long-term analysis of the business of the company. . .

103. Similarly, GAAP in Financial Accounting Standards Board (“FASB”) Statement

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.

104. In addition, the SEC, in its May 18, 1989 Interpretive Release No. 34-26831, has indicated that registrants should employ the following two-step analysis in determining when a known trend or uncertainty is required to be included in the MD&A disclosure pursuant to Item 303 of Regulation S-K:

A disclosure duty exists where a trend, demand, commitment, event or uncertainty is both presently known to management and is reasonably likely to have a material effect on the registrant’s financial condition or results of operations.

105. According to Securities Act Release No. 6349:

[i]t is the responsibility of management to identify and address those key variables and other qualitative and quantitative factors which are peculiar to and necessary for an understanding and evaluation of the individual company.

106. As described above, Defendants knew or were reckless in not knowing that customers’ purchasing of “safety stock” resulted in substantial and material increases in Martek’s results and trends during the Class Period and would have a negative impact on future periods. Nonetheless, Martek’s Class Period Forms 10-K and 10-Q failed to disclose that the Company’s revenue growth was, in part, achieved by customers’ stockpiling of inventories to protect themselves from anticipated supply shortages. Defendants’ failure to disclose the reasons for Martek’s revenue growth effectively changed the perception as to how fast the company was growing. Indeed, it was material for investors and the market to know whether Martek’s revenue was sustainable. Accordingly, Defendants’ failure to identify to investors the true source of Martek’s revenues acted as an implicit and false representation that such revenue was sustainable.
Additional GAAP Violations

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

a) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions (FASB Concepts Statement No. 1, ¶ 34);

b) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources (FASB Concepts Statement No. 1, ¶ 40);

c) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Concepts Statement No. 1, ¶ 50);

d) The principle that financial reporting should be reliable in that it represents what it purports to represent. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Concepts Statement No. 2, Qualitative Characteristics of Accounting Information ¶¶ 58-59 (May 1980));

e) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions (FASB Concepts Statement No. 2, ¶ 79); and

f) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Concepts Statement No. 2, ¶¶ 95, 97).
ADDITIONAL SCIENTER ALLEGATIONS

108. As alleged herein, Defendants acted with scienter in that they knew or recklessly disregarded that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth herein, Defendants by virtue of their receipt of information reflecting the true facts regarding Martek, their control over, and/or receipt and/or modification of Martek’s materially misleading misstatements and/or their associations with the Company that made them privy to confidential proprietary information concerning Martek, participated in the wrongdoing alleged herein.

109. At all relevant times, Defendants had actual knowledge of or recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to the investing public. They also were aware that the projections for future growth that they were so eager to share with the investment community lacked any reasonable basis in fact given the safety stock which had been accumulated by Martek’s four main customers and the virtual certainty that this would lead to decreased demand for its products. The wrongdoing described herein could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest levels of the Company, including the Individual Defendants.

The Individual Defendants’ Motive and Opportunity

110. Defendants Buzy and Linsert had substantial motive (and by virtue of their control of Martek, the opportunity) to conceal the fact that Martek’s customers were in fact
building a significant amount of safety stock due to Martek’s inability to keep apace of demand. By concealing this fact from the investing public, the Individual Defendants falsely portrayed Martek as being on target to meet its revenue projections for fiscal 2005 in an effort to complete the Secondary Offering of 1.7 million shares of Martek stock for which it received proceeds in excess of $81 million.

111. As admitted in the April 28, 2005 conference call, Defendants were aware of the safety stock being held by Martek customers as early as the beginning of the Class Period and before the time Martek completed the Secondary Offering, yet they disclosed neither the extent, nor likely effect of, such stockpiling on Martek’s finances or customer demand for its products during the Class Period.

112. Buzy and Linsert also were personally motivated to conceal the true nature of Martek’s finances. For instance, in December 2004 and January 2005 the Company modified the terms of all outstanding and unvested stock options whose exercise prices were greater than Martek’s closing stock price of $49.71 on December 16, 2004.

113. This modification immediately vested previously unvested stock options held by Defendant Linsert at an exercise price of $61.15 per share. Similarly, the modification immediately vested Defendant Buzy’s previously unvested stock options at an exercise price of $61.15 per share.

114. Thus the Individual Defendants had every incentive to cause an increase in the price of Martek stock, which would have enabled them to profit by exercising their newly vested options.
Defendants’ Wrongdoing Involved Martek’s Four Customers and the Core Business of the Company

115. As admitted by the Individual Defendants in the April 28, 2005 conference call and in public filings, Martek had four customers that comprised 90% of its core business. The Individual Defendants thus had significant insight into their customers’ supply and inventory needs throughout the Class Period. As Defendant Buzy stated during the December 9, 2004 investor conference call webcast, “we have excellent visibility” regarding revenue forecasts because “it’s primarily our core business.”

DEFENDANTS’ MATERIALLY FALSE AND MISLEADING MISREPRESENTATIONS AND OMISSIONS WERE THE CAUSE OF THE DAMAGES SUFFERED BY PLAINTIFFS AND THE CLASS

116. The market for Martek stock was open, well-developed and efficient at all relevant times. As a result of the materially false and misleading statements and failures to disclose described above, Martek common stock traded at artificially inflated prices during the Class Period. The artificial inflation continued at least through and including the end of the Class Period when Defendants disclosed, among other things, that the touted guidance for growth in revenues for fiscal 2005 would not be achieved. Lead Plaintiffs and other members of the Class purchased or otherwise acquired Martek’s common stock relying upon the integrity of the market price of the Company’s common stock and market information relating to Martek, and have been damaged thereby.

117. Defendants’ false and misleading statements had the intended effect and caused Martek stock to trade at artificially inflated levels, reaching as high as $70.49 in March 2005, just weeks before Martek’s revelation that it would not meet its revenue projections.

118. On April 27, 2005, at the end of the trading day, Defendants publicly disclosed that the Company would not meet its revenue projections due to lower demand for its products
caused by customer build-up of inventory to combat supply shortages. Trading was halted in the stock and the last reported stock price for April 27, 2005 was $60.08. On April 28, 2005, in an investor conference call webcast, Defendants publicly disclosed that the Company was aware of customer build-up of inventory since at least the beginning of the Class Period and that as a result of this stockpiling, Martek would not meet Defendants’ revenue projections for fiscal 2005. As a direct result of these disclosures, the price per share of Martek common stock fell 45.9%, to close at $32.49, damaging investors.

119. The timing and magnitude of Martek’s stock price decline negates any inference that the loss suffered by Plaintiffs and other members of the Class was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants’ wrongful conduct.

APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE

120. At all relevant times, the market for Martek securities was an efficient market based on the following:

(a) Martek stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, Martek filed periodic public reports with the SEC and NASDAQ;

(c) Martek regularly communicated with public investors via established market communication mechanisms, including press releases on the national circuits of major newswire services, investor conference call webcasts, and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and
(d) Martek was followed by several securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

121. As a result of the foregoing, the market for Martek stock promptly digested current information regarding Martek from all publicly-available sources and reflected such information in Martek’s stock price. Under these circumstances, all purchasers of Martek common stock during the Class Period suffered similar injury, and the presumption of reliance applies.

**NO SAFE HARBOR**

122. 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. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Martek who knew that those statements were false when made.

**PLAINTIFFS’ CLASS ACTION ALLEGATIONS**

123. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the
common stock of Martek between December 9, 2004, and April 28, 2005, inclusive (the “Class Period”), and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which Defendants have or had a controlling interest.

124. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Martek’s common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Martek or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

125. Plaintiffs’ claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants’ wrongful conduct in violation of federal law that is complained of herein.

126. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

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

(a) whether the federal securities laws were violated by Defendants’ acts as alleged herein;
(b) whether statements made by Defendants to the investing public during the Class Period misrepresented and or omitted material facts about the business, operations, and finances of Martek; and

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

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

**COUNT ONE**

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

129. Plaintiffs repeat and re-allege each and every allegation above, as though set forth fully herein. This Count is brought pursuant to Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder, § 17 C.F.R. 240.10b-5, on behalf of the Plaintiffs and all Class members against the Defendants for misrepresentations and omissions.

130. Throughout the Class Period, the Defendants named in this Count directly and indirectly, by the use, means or instrumentalities of interstate commerce, the United States mails and national securities exchange, employed devices, schemes and artifices to defraud, made untrue statements of material fact and 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,
and engaged in acts, practices and a course of business which operated as a fraud and deceit upon
Plaintiffs and members of the Class.

131. The Individual Defendants, as directors and/or the most senior officers of Martek
during the Class Period, are liable as direct participants in all of the wrongs complained of
herein. Through their positions of control and authority, as well as their stock ownership, the
Individual Defendants were in a position to control all of the Company’s false and misleading
statements and omissions, including the contents of the annual reports on Form 10-K and 10-
K/A, the quarterly results on Forms 10-Q, conference calls and press releases, as set forth above.

132. As detailed herein, throughout the Class Period, each of the Individual Defendants
named in this Count orchestrated the fraudulent scheme and had actual knowledge of the
misrepresentations and omissions of material facts set forth above 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 material misrepresentations and/or omissions were made
knowingly or recklessly and for the purpose and effect of concealing that Martek customers were
building a high level of safety stock that would lead to diminished demand for its products.

133. In bringing these claims, Plaintiffs and the members of the Class are entitled to
the presumption of reliance established by the fraud-on-the-market doctrine. At all times
relevant to this Complaint, the market for Martek common stock was an efficient market for the
reasons stated hereinafore.

134. As a direct and proximate result of the wrongful conduct described herein,
Plaintiffs and other members of the Class suffered damages in connection with their purchases of
Martek common stock. Had Plaintiffs and the other members of the Class known of the material
adverse information not disclosed by the Defendants, or been aware of the truth behind the
Defendants’ material misstatements, they would not have purchased Martek stock at artificially inflated prices.

135. This claim was brought within two years of the discovery of this fraud and within five years of making the misstatements alleged herein to be materially false and misleading.

136. By virtue of the foregoing, the Defendants named in this Count violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Plaintiffs and the members of the Class, each of whom has been damaged as a result of the violations.

COUNT TWO

Violation Of Section 20(A) Of The Exchange Act Against Defendants Linsert And Buzy

137. Plaintiffs repeat and reallege each and every allegation above as though set forth fully herein. This Count is brought pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), on behalf of Plaintiffs and all Class members against Defendants Linsert and Buzy.

138. For all of the reasons set forth above in Count One, Martek is liable to Plaintiffs and Class members who purchased Martek common stock based on the materially false and misleading statements and omissions set forth above, pursuant to Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5, promulgated thereunder.

139. Throughout the Class Period, Defendants Linsert and Buzy were controlling persons of Martek within the meaning of Section 20(a) of the Exchange Act, and were culpable participants in the Martek fraud, as more particularly set forth in Count One above. 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 that Plaintiffs 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 Plaintiffs to be false and 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.

140. 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.

141. For instance, according to the Company’s 10-K for the fiscal year ended October 31, 2004, Martek’s “entire business is comprehensively managed by a single management team that reports to the Chief Executive Officer. The Company does not operate any material separate lines of business or separate business entities with respect to its products or product candidates.”

142. Accordingly, Linsert, as the Chief Executive Officer, and Buzy as Chief Financial Officer, were privy to the intricacies and daily operations of Martek, including the Company’s problems in meeting its customers’ inventory needs resulting in the build-up of safety stock, and the failure of Martek’s customers to return the shipping containers.

143. As set forth above, by virtue of these controlling positions with Martek, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants’ wrongful conduct, Plaintiffs and other members of the Class have suffered damages in connection with their purchases of the Company’s common stock during the Class Period.
COUNT THREE

Violations Of Section 11 Of The Securities Act Against All Defendants

144. This Count is brought by Plaintiff Keathley pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k on behalf of himself all Class members who purchased Martek common stock pursuant or traceable to the Registration Statement/Prospectus and Prospectus Supplement in the Secondary Offering. The August 24, 2004 Registration statement served as the Registration Statement for the Prospectus Supplement for the Secondary Offering.

145. This Count is not based on and does not sound in fraud. Plaintiff Keathley repeats and alleges the allegations set forth above as if set forth fully herein, except to the extent that any such allegations charge the Defendants with intentional or reckless misconduct. For the purposes of this Count, Representative Keathley expressly disavows any allegation that any Defendant acted with scienter or fraudulent intent, which is not an element of 1933 Act claims.

146. This Count is asserted against the Company in connection with the selling of Martek’s shares of its common stock in the Secondary Offering within the meaning of the Securities Act.

147. Martek was the issuer of the Registration Statement/Prospectus and Prospectus Supplement, which were materially false and misleading and contained untrue statements of material fact and omitted to state material facts necessary to make the statements made therein, under the circumstances in which they were made, not misleading, as set forth above. The Registration Statement/Prospectus was signed by Defendant Buzy and Defendant Linsert; the Prospectus Supplement incorporated the Registration Statement/Prospectus by reference therein.

148. None of the Defendants named in this Count made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration
Statement/Prospectus and Prospectus Supplement were accurate and complete in all material respects. Had they exercised reasonable care, the Defendants named in this Count could have known of the material misstatements and omissions alleged herein.

149. At the time Plaintiff Keathley purchased shares in the Secondary Offering, neither Plaintiff Keathley nor any member of the Class knew or, by the reasonable exercise of care, could have known of the material misstatements and omissions alleged herein.

150. In connection with the Secondary Offering and sale of stock, the Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, the United States mails and a national securities exchange.

151. This claim was brought within one year after discovery of the untrue statements and omissions in the Registration Statement/Prospectus and Prospectus Supplement and within three years after the Martek common stock was sold to Class members in connection with the Secondary Offering. Plaintiff Keathley acquired Martek stock in the Secondary Offering before Martek made generally available to its security holders an earning statement covering a period of at least twelve months beginning after the effective date of the registration statement.

152. By reason of the misconduct alleged herein, the Defendants named in this Count violated Section 11 if the Securities Act and are liable to Plaintiff Keathley and the Class members who purchased or acquired Martek common stock in the Secondary Offering pursuant to or traceable to the Registration Statement/Prospectus and Prospectus Supplement, each of whom has been damaged as a result of such violations.
COUNT FOUR

Violation Of Section 15 Of The Securities Act
Against Defendants Linsert And Buzy

153. This Count is brought by Plaintiff Keathley pursuant to Section 15 of the Securities Act, 15 U.S.C. § 77o, on behalf of himself and Class members who purchased Martek common stock pursuant to or traceable to the Registration Statement/Prospectus and Prospectus Supplement. Plaintiff Keathley repeats and alleges the allegations set forth above as if set forth fully herein, except to the extent that any such allegations charge the Defendants with intentional or reckless misconduct. For the purposes of this Count, Representative Keathley expressly disavows any allegation that any Defendant acted with scienter or fraudulent intent, which is not an element of 1933 Act claims.

154. For all the reasons set forth above in the claim brought under Section 11 of the Securities Act, Martek is liable to Plaintiff Keathley and the members of the Class who purchased Martek common stock in the Secondary Offering based on the materially false and misleading statements and omissions contained in the Registration Statement/Prospectus and Prospectus Supplement and were damaged thereby.

155. Throughout the Class Period, Defendants Linsert and Buzy were control persons of Martek within the meaning of Section 15 of the Securities Act by virtue of, among other things, their positions as senior officers, directors and/or principal shareholders of Martek, as well as their direct and/or indirect business and/or personal relationships with other directors and/or major shareholders of Martek.

156. Throughout the Class Period, Defendants Linsert and Buzy were control persons of Martek by virtue of their positions of operational control. At the time Plaintiff Keathley and other members of the Class purchased shares of Martek, Linsert and Buzy directly and indirectly
had the power and authority, and exercised the same, to cause Martek to engage in the wrongful conduct complained of herein. Linsert and Buzy issued, caused to be issued, and participated in the issuance of materially false and misleading Prospectuses.

157. 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.

158. For instance, according to the Company’s 10-K for the fiscal year ended October 31, 2004, Martek’s “entire business is comprehensively managed by a single management team that reports to the Chief Executive Officer. The Company does not operate any material separate lines of business or separate business entities with respect to its products or product candidates.”

159. Accordingly, Linsert, as the Chief Executive Officer, and Buzy as Chief Financial Officer, were privy to the intricacies and daily operations of Martek, including the Company’s problems in meeting its customers’ inventory needs resulting in the build-up of safety stock, and the failure of Martek’s customers to return the shipping containers.

160. This claim was brought within one year after discovery of the untrue statements and omissions in the Registration Statement/Prospectus and Prospectus Supplement and within three years after Martek common stock was sold to the Class in connection with the Secondary Offering.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs, on their own behalf and on behalf of the Class, pray for judgment as follows:

(a) Declaring the action to be a proper class action and certifying Plaintiffs as class representatives under Rule 23 of the Federal Rule of Civil Procedure;
(b) Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for the damages sustained as a result of the wrongdoings of Defendants, together with interest thereon;

(c) Awarding Plaintiffs fees and expenses incurred in this action, including reasonable allowance of fees for Plaintiffs’ attorneys and experts;

(d) Granting extraordinary equitable and/or injunctive relief as permitted by law, equity and federal statutory provisions sued on hereunder; and

(e) Granting such other further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiffs hereby demand a trial by jury.

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Additional Plaintiffs’ Counsel
PLAINTIFF'S CERTIFICATION

James Keathley ("Plaintiff") declares under penalty of perjury, as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint and authorized its filing.

2. Plaintiff did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary, and Plaintiff is willing to serve as a lead plaintiff either individually or as part of a group, a lead plaintiff being a representative party who acts on behalf of other class members in directing the action.

4. Plaintiff's transactions during the Class Period (December 9, 2004 – April 27, 2005) are as set forth on the attached "Schedule Of Transactions."

5. During the three years prior to the date of this Certification, Plaintiff has not sought to serve or served as a representative party for a class under the federal securities laws.

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court. Plaintiff understands that this is not a claim form, and that Plaintiff's ability to share in any recovery as a member of the class is unaffected by Plaintiff's decision to serve as a representative party.

I declare under penalty of perjury that the foregoing is true and correct. Executed this __th day of O__ober_______ 2005.

James Keathley

24389
ATTACHMENT TO CERTIFICATION –

SCHEDULE OF TRANSACTIONS

Martek Biosciences Corporation Securities Litigation

Name: James Keathley

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