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Improving the Efficacy of the Securities Fraud Lawsuit Against Catalent, Inc.

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Introduction

According to the International Federation of Accountants, the COVID-19 pandemic-induced economic upheaval unleashed new opportunities for businesses to engage in fraudulent acts, including the inappropriate application of financial reporting standards (Gould and Leka, 2020). However, relatively few articles have been devoted to accounting-related issues stemming directly from pandemic effects (Rinaldi, 2023). Moreover, Leoni et al. (2021) advocate for better understanding of the critical role of accounting within the context of a global emergency, and how its application, or misapplication, affects accountability for decisions made under extraordinary circumstances.

Upon the sunset of the COVID-19 pandemic heyday, Catalent, Inc. enacted an accounting treatment for vaccine sales which arguably violates GAAP revenue recognition principles. In effect, the company was prematurely recognizing revenue for product sales not yet delivered to channel distribution centers and thus significantly overstating 2022 sales. Pre-COVID-19 Catalent stock sold below $50; however, Catalent's business increased greatly during the first year of the pandemic when the administration of vaccines was at its peak. At the height of the pandemic, the stock price reached $142.64 on September 9, 2021. Revenues were $3.998 billion in 2021 and $4.828 billion in 2022.

By the middle of 2021 and thereafter, vaccines were in less demand, and the company padded its income with revenue recognition and channel stuffing schemes. In June 2023, the stock price fell to a low of $37. As a result of the downward slide, the company has been subject to several class action shareholder lawsuits, arguing that Catalent artificially inflated its revenues through fraudulent revenue recognition and deceptive and illegal channel stuffing schemes to mislead investors. Finally, Catalent had to report significant sales declines and bloated inventory levels.

Contract Drug Manufacturer

Catalent, Inc., ticker symbol CTLT, is a multinational corporation with headquarters in Somerset, New Jersey. The company provides delivery technologies, development, drug manufacturing, biologics, gene therapies, and consumer health products. This contract development and manufacturing organization (CDMO) has more than 50 facilities around the globe, delivering technologies for various drugs through pre-filled syringes, cartridges, and vials. Catalent has two major segments: biologics and pharma/consumer health as of the beginning of fiscal year 2023 (July 1).

Although Catalent manufactures and packages drugs (e.g., vials, pills, pre-filled syringes) for humans, the company sells these products to channel pharmaceutical companies. Channel pharmaceutical companies then sell these products through the supply chain to healthcare providers such as hospitals and clinics, who in turn administer them to patients. AstraZeneca, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Moderna, and Pfizer are some of Catalent's key channel partners.

With these channel partners, Catalent has long-term contracts which under GAAP allow the recognition of revenue after meeting certain requirements such as the products successfully passing quality inspection. In its fiscal year 2022, Form 10-K, Catalent indicated that about two-thirds of its fiscal 2022 net revenues from its product development and delivery offerings and related services were from these long-term contracts. Accordingly, Catalent allegedly recognizes a substantial portion of sales prior to billing the customer or transferring the products to the channel partners.

A shareholder lawsuit argues that Catalent's revenue recognition method reduces third-party transparency, and these contracts are highly susceptible to financial accounting fraud by premature revenue recognition (*City of Warwick Retirement System v. Catalent, Inc.*, 2023). An argument is made that as the population became vaccinated, the demand for Catalent's products was reduced, but Catalent proceeded to report glowing revenues and assured investors that

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demand for its products would still be strong. On December 8, 2022, short-seller Glasshouse Research argued that Catalent materially overstated its revenue by $568.2 million in violation of GAAP (Glasshouse Research, 2022, p. 29).

Accounting for Contract Assets

Catalent ostensibly recognizes revenue in accordance with Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (FASB, 2020). The standard provides a five-step process for recognizing revenue arising from contracts with customers to provide goods or services (EY, 2023):

1. **Identify the contract with the customer**. An entity must identify the contract(s) to provide goods or services. The contract must create enforceable rights and obligations. The parties must have approved the contract and are committed to fulfilling their respective obligations. The entity can identify each party's rights and the payment terms. The contract has commercial substance, and the entity probably will collect substantially all its entitled consideration. Contracts are combined if they are negotiated as a package, the amount of consideration to be paid in one contract depends on the price or performance of another contract, or the goods or services promised are a single performance obligation.
2. **Identify the separate performance obligations in the contract**. The entity must identify the promised goods and services and determine which of those are separate performance obligations. A promised good or service represents a performance obligation if the good or service is distinct or part of a series of distinct goods or services that are substantially the same. The entity needs to consider whether the nature of the promise is to transfer each of the goods or services individually or as a combination.
3. **Determine the transaction price to the separate performance obligation**. The transfer price is the expected entitled consideration in exchange for the promised goods or services. In determining the transfer price, all of the following should be considered: variable consideration (e.g., discounts or rebates), significant financing components, noncash consideration, and consideration paid or payable to the customer (e.g., credits that can be applied against amounts owed).
4. **Allocate this transaction price to the separate performance obligations**. With a few exceptions, if a contract has multiple performance obligations, the entity is to allocate the transfer price to the performance obligations in proportion to their stand-alone selling prices.
5. **Recognize revenue when each performance obligation is satisfied**. Revenue is recognized at a point in time only when it satisfies a performance obligation by transferring control of the promised good(s) or service(s) to a customer. If the performance obligation is satisfied over time, it is recognized as revenue when the performance obligation is satisfied (e.g., by a measure of progress).

Sometimes called unbilled receivables or progress payments to be billed, a typical example of a contract asset is as follows:

> Alpha Company has a contract with Beta Company to manufacture two machines, A and B, and deliver both within seven months. Payment is due after both are delivered. Alpha manufactures and tests Machine A by the end of the fourth month and delivers it. Beta Company does not owe Alpha Company any money at this time. Alpha Company records a Contract Asset for its sales price of $75,000 and Sales Revenue for the same amount. Three months later, Alpha Company completes Machine B, selling price $125,000, tests and then delivers the machine to Beta Company. At that time, Alpha Company records an Accounts Receivable for $200,000, eliminates the $75,000 Contract Asset account, and records Sales Revenue of $125,000. Payment is now due from Beta Company.

Utilizing three-to-seven-year agreements with its channel partner pharmaceutical companies, Catalent appears to have improperly recorded a Contract Asset with a corresponding Sales Revenue Account, bypassing the typical rule and recognized revenue before the company's products were invoiced or delivered. Normally to satisfy a performance obligation, the customer must obtain control of an asset or benefit. In its fiscal year 2022 Form 10-K Annual Report, the company created a Current Contract Asset (without delivery) that was expected to transfer to receivables within 12 months and a Long-Term Contract Asset that was expected to transfer to receivables beyond 12 months. This treatment does not appear to be in accordance with the accounting standards. According to ASC 606 and IFRS 15, Revenue from Contracts with Customers (IFRS, 2014) a contract asset results when a company transfers a product or performs a service in advance of receiving consideration from the customer as agreed to by a contract when the right is conditional. The contract asset becomes a receivable account when the right to receive the consideration becomes unconditional, meaning only the passage of time determines the due date of the payment. Accordingly, Catalent inappropriately recognized revenue that has not been invoiced or necessarily agreed to by the customer.

During the COVID-19 pandemic, Catalent had a surge in its Contract Assets and explains this amount in a 2022 fiscal year Form 10-K footnote:

> Contract assets primarily relate to the Company's conditional right to receive consideration for development services that have been performed for a customer as of June 30, 2022, but had not yet been invoiced as of June 30, 2022. Contract assets are transferred to trade receivables, net when the Company’s right to receive the consideration becomes unconditional. Contract assets totaled $441 million and $181 million as of June 30, 2022 and 2021, respectively. Contract assets expected to transfer to trade receivables within 12 months are accounted for within Prepaid Expenses and other. Contract assets expected to transfer to trade receivables longer than 12 months are accounted for within Other Long-term Assets.
>
> As of June 30, 2022, the Company's aggregate contract asset balance was $441 million, an increase of $260 million compared to June 30, 2021. The majority of this increase is related to large development programs in the Biologics segment, such as manufacturing and development services for COVID-19 vaccines, where revenue is recorded over time and the ability to invoice customers is dictated by contractual terms. As of June 30, 2022, there were no reserves recorded against the Company's aggregate contract asset balance.

The SEC apparently was already not satisfied with Catalent’s revenue recognition and in a letter dated May 28, 2019, made these requests:

> In the second paragraph under this heading, as well as under the header ‘Clinical Supply Services Revenue,’ you state “In other arrangements, revenue is recognized when the customer has taken legal title to or accepted the product or service deliverables, and the Company has a right to payment based on the terms of the arrangement.” Please clarify for us when the customer takes legal title and what determines whether control is transferred when customer has taken legal title versus when it has accepted the product or service deliverable. Consider providing us with the proposed revised disclosure, as necessary. Your timing of revenue recognition from when the product is delivered to when the product quality release testing procedures are completed changed upon adoption of ASC 606, as it appears this is the point in time you have determined that control has been transferred to the customer.

ASC 606-10-45-1 clearly states that a contract asset is a company’s right to consideration in exchange for goods or services that the company has transferred to the customer. PwC (2023) agrees with this transfer requirement and defines a contract asset “as an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer.” Likewise, IFRS 15 defines a contract asset “as an entity’s right to consideration in exchange for goods and services that the entity has transferred to a customer, when the right is conditional or something other than the passage of time, for example, the entity’s future performance” (IFRS, 2014). Therefore, delivery is a necessary step to recognizing any revenue, and EY (2023, p. 252) agrees with the transfer to the customer requirement. Catalent is in violation of the standards.

Glasshouse Research Report

The catalyst for the City of Warwick Retirement System lawsuits against Catalent was probably the anonymous Glasshouse Research report released on December 8, 2022, initiating a strong sell opinion for the stock. Celarier (2020) indicates that activist short sellers, many of whom are anonymous, are “a phenomenon that has turned the world of short selling upside down over the past decade.” This research group is supposedly comprised of forensic accountants and analysts, who are determined to expose fraudulent companies that take advantage of GAAP as well as IFRS accounting for their benefit. A 31-page 2022 Glasshouse report claimed that Catalent had been materially overstating its revenues by $568.2 million in violation of GAAP. Glasshouse Research’s website indicates that their researchers search for “a culture of fraud” within public companies, and as of September 27, 2023, lists thirteen reports about allegedly fraudulent companies.

The Glasshouse Research report on Catalent does not mention channel stuffing, fraudulent activities, or accounting schemes, but does mention premature recognition of revenue (14 times), earnings management (two times), delayed expenses (two times), and suspect revenue (two times). Interestingly, the report does not specifically highlight the infraction of ASC 606 or IFRS 15, wherein revenue should not be recognized until the vaccines are transferred to Catalent’s channel partners. For example, Catalent CFO Thomas Castellano made this statement at the Stephens Conference on November 16, 2022 (Glasshouse Research, 2022, p. 12):

> Yes. This is another one that we’re going after pretty aggressively. I think we need to change the way we contract with customers around contract assets here, be in a position to invoice at different stages of the revenue recognition process versus when batches are released for those development-related programs. We need to

> shorten the cycle time as well in terms of releasing those batches. So, a huge focus area for the company, for my team and cross-functionally with our operations supply teams as well. And this is another area where we expect to improve as we get further into the year.

The Glasshouse Research report ignores the fact that the vaccines must be sent to the channel partners (not merely produced) as is seen by this comment as a response to Castellano's comment (Glasshouse Research, 2022, p. 12):

> Put another way, management cannot prematurely invoice a client before "batches are released" otherwise they would not pay the bill. However, they can prematurely recognize revenue on its own income statement to hit sales targets even though they are behind in batches. We believe that is the case here with the persistent rise of contract assets at Catalent.

Although the Glasshouse Research report did not spotlight how Catalent was managing earnings, the report did point out a number of accounting red flags of premature revenue recognition. One of these include a significant overstatement of inventory, indicating that delivery of the products was not completed, and bolstering evidence that the revenue recognition was improper. The red flags include:

- Contract assets have surged 106 percent year-over-year (YOY) resulting in a pull forward of $568.2 million of revenue recognized prematurely. In the most recent period, total receivables increased 33.4 percent, greatly diverging from the recent quarterly revenue decline of 0.3 percent YOY.
- Relative to sales, customer advances fell to their lowest balance in five years. Twelve-month days sales outstanding (average receivables/sales) grew 10.6 percent YOY to a new five-year high.
- Contract assets spiked as contract liabilities plummeted; net contract assets (total receivables minus total contract liabilities) surged 66.9 percent YOY.
- Current inventory stands at $732.0 million, when the number should be only $332.0 million (on December 8, 2022); this excess balance will need to be discounted or deemed obsolete.
- Inventory outpaces revenue growth in nine consecutive periods.
- Free-cash-flow metrics are the worst in the company's history.
- Company continues to acquire numerous companies while greatly reducing R&D expenditures.
- Insiders hold new record lows for the company's stock.
- There have been recent numbers of high-level executive departures.
- Management has a small percentage of compensation in salary versus primarily in incentive awards.

All this leads Glasshouse Research to opine that Catalent will face material headwinds going forward.

Shareholder Class Action Lawsuit Procedures and Recent Statistics

A class action lawsuit complaint representing one or more plaintiffs is filed (normally asking for a jury trial) when a large number of individuals are allegedly wronged by a corporation, but the numerous parties suffered small monetary losses. Filing the lawsuit is only the first step in a long, arduous process. Once a judge is assigned to the dispute, he or she must determine whether the named plaintiff(s) share a common claim against the defendant, there is a large group of potential plaintiffs, the named plaintiff is qualified to represent the class of plaintiffs, and the claims or defenses of the representative parties are typical of the claims and defenses of the class (Chorba et al., 2017). If only 21 or fewer individuals are harmed, the lawsuit will probably be denied. If 40 or more are harmed, the dispute is likely to be certified. Only about 20 to 40 percent of lawsuits end up being certified for pretrial action (Top Class Actions, 2020). Once the lawsuit is certified, there is a period of discovery where both the plaintiff and defendant search for evidence, including deposition of witnesses and experts on both sides of the dispute. Often there is a settlement between the parties before trial.

GAAP violations in settlements of securities class actions involving SEC Rule 10b-5 claims include two subcategories: financial statement restatements and accounting irregularities. The proportion of settled claims in 2022 involving Rule 10b-5 claims alleging GAAP violations remains at a historically low level of 2 percent (Cornerstone Research, 2023a). In 2022, there were 51 securities class action filings involving accounting allegations (an increase of 21 percent versus 2021) and 43 securities class action settlements (an increase of 30 percent over 2021). Furthermore in 2022, revenue recognition continued to be the most common GAAP violation allegation, with 35 percent of accounting case filings involving revenue recognition (Cornerstone Research, 2023b). The median time from filing to the settlement hearing date in 2022 was 3.2 years as compared to 2.9 years for 2013–2021 (Cornerstone Research, 2023a).

Class Action Lawsuits Involving Channel Stuffing

Channel stuffing or trade loading involves sending excessive inventory to distributors ahead of demand and often near the end of the reporting period. Das et al. (2011) found that 102 companies allegedly engaged in channel stuffing between 1994–2007. These authors defined channel stuffing as "the practice of shipping more goods to distributors and retailers along the distributing channel than end-users are likely to buy in a reasonable time period" (p. 1). According to Das et al., the SEC investigated more than 40 percent of its sample firms in relation to its alleged channel stuffing activities and made these observations:

> Our results show that smaller firms, firms with higher growth opportunities, higher profit margins, and limited accrual management ability are more likely to engage in channel stuffing. A slow-down in receivables collection in the affected quarter serves as a significant indicator of channel stuffing. At the same time, we find that firm size, institutional holdings, Big-4 auditor, and tighter accounting regulation increase the detection probability and in turn reduce the probability of channel stuffing. Further analysis shows that firms that engage in channel-stuffing experience declining sales, production and profitability in future periods, suggesting that this activity achieves short-term benefits only at the price of long-term adverse consequences.

Furthermore, Das et al. reports that a number of corporations have been accused of channel stuffing, such as Symbol Technologies ($131 million fine), Coca Cola, Diageo, Orthofix, AuthroCare, and Sunbeam. Bristol-Myers Squibb (BMS) had to pay a $150 million fine, because BMS CFO Frederick S. Schiff and President Richard Lane were accused of paying $132 million to wholesalers who then bought $1.5–$2 billion of BMS drugs for which no customers existed. Despite this, Schiff and Lane won deferred prosecution at a federal appeals court. Jim Edwards (2010) suggested that channel stuffing is somewhat like a Ponzi scheme, and the Third Circuit Court of Appeals almost legalized channel stuffing as an accounting trick for drug companies. The Court held that although Schiff may have misled investors, the judge did not see anything unusual about his actions (*U.S. v. Schiff*, 2010).

Another example may be found in a lawsuit brought against Medicis Pharmaceutical Corporation in 2011 (*Casetext: Smarter Legal Research*, 2011); anecdotally, Medicis' auditor was Ernst and Young (EY), which is the auditor for Catalent. Shareholders accused Medicis of stuffing the distribution channel with products that the company knew a substantial portion of the sales would likely be returned. When the drugs were returned, the company sent the customers a new batch at the same value without ever booking a sales return expense. Despite whistleblower evidence, the judge dismissed the dispute, because the shareholders did not prove the defendants committed scienter (meaning an offending party has knowledge of the wrongness of an action or event prior to committing it). The restatement or an accounting error did not give rise to a strong influence of scienter with respect to any of the defendants. After the first District Court case was dismissed, the complaint was amended, and the dispute went back to court; however, the parties mediated the dispute with Medicis and EY paying $11 million and $7 million, respectively (Edwards, 2011).

City of Warwick Retirement System Lawsuit

The City of Warwick Retirement System filed a class action lawsuit against Catalent, Inc. on February 24, 2023, claiming that the company engaged in improper revenue recognition and channel stuffing schemes to increase the company's revenues. The class period is any securities acquired between August 30, 2021, and October 31, 2022. Catalent's alleged schemes gave the company the appearance of continued growth that caused the stock price to reach new record highs (*City of Warwick Retirement System v. Catalent, Inc. et al.*, 2023).

The Warwick complaint states that when COVID-19-related vaccine demand dropped off, Catalent began to engage in revenue recognition and channel stuffing schemes to increase revenues and mislead investors. According to the lawsuit, five notable drops in the stock price occurred:

- August 29, 2022: Catalent revealed that COVID-19-related issues were facing substantial headwinds—its stock price dropped 7.4 percent, closing at $92.28.
- September 20, 2022: A *Washington Post* article reported that the release of COVID-19 vaccines produced by the company was delayed by regulators because of improper sterilization at a key facility—its stock price declined by 9.3 percent over two days.
- November 1, 2022: Catalent disclosed that its quarterly earnings had declined to zero, indicating falling demand. Also, regulatory issues at key facilities were negatively impacting its financial results—its stock price declined 31.7 percent over two trading days, closing at $44.90. Over the class period of August 30, 2021, to October 31,

2022, the stock price dropped more than 68 percent, from a high of $142 to a close on November 2, 2022, of $44.90.

- November 16, 2022: The company announced there was excessive inventory of more than $400 million, which the lawsuit attributes to misrepresenting the demand for its products, and its stock price declined by 8.5 percent over two trading days.
- December 8, 2022: The Glasshouse Research report indicated the company had materially overstated its revenues by $568.2 million due to improper accounting practices—its stock price declined 3.6 percent to close at $45.54 on this date.

The plaintiffs claim that the Catalent defendants made false and/or misleading statements and failed to disclose material adverse facts. Revenues and earnings were materially overstated in violation of GAAP. The company falsely represented the demand for its products. Regulatory rules at key production facilities were disregarded in order to produce excess inventory to prematurely recognize revenue and/or stuff its direct customers. Defendants Alessandro Maselli, President and Chief Operating Officer, and Thomas Castallone, Chief Financial Officer, certified that the financial information in the Form 10-K reports fairly presented the financial condition and results of operations of the company. EY gave Catalent an unqualified opinion regarding internal control over financial reporting in the 2022 10-K (ultimately to be rescinded in the delayed issuance of the 2023 10-K on December 8, 2023). Maselli stated in the Quarter 4 2022 Earnings Call that the prescription business pipeline was strong (*City of Warwick Retirement System v. Catalent, Inc. et al.*, 2023).

The Warwick lawsuit points out that Catalent recognized a sizable portion of its revenue prior to billing its customers. This action reduced third-party transparency and caused the long-term contracts to be susceptible to accounting fraud. Notably, the lawsuit does not discuss contract asset accounting, ASC 606, or when the revenue from the long-term contracts should be recognized.

Events in 2023

Catalent filed a Form 12-b-25, Notification of Late Filing, for Form 10-Q for the fiscal Quarter March 31, 2023, on May 11, 2023. The company disclosed in a press release on May 8, 2023, that in the course of finalizing its financial statements for the third fiscal quarter ended March 31, 2023, the company identified certain accounting adjustments related to its operations in Bloomington, Indiana. These adjustments stem from revenue recognized under certain contractual arrangements that the company has since determined were incorrectly recognized as of the fourth fiscal quarter ended June 30, 2022, and the first fiscal quarter ended September 30, 2022. Catalent expects to significantly reduce both its fiscal 2023 net revenue and adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) guidance by more than $400 million each. In addition, the company expects that its income statement and balance sheet will reflect a goodwill impairment in its consumer health business of more than $200 million, primarily related to its October 2021 acquisition of Bettera Wellness. Of course, the stock price dropped 27 percent to a three-year low on May 8, 2023 (Reuters, 2023).

In its delayed March 31, 2023, Form 10-Q, Catalent admitted to material weakness in internal control over financial reporting for Information Technology General Controls. Also, the Company made a statement about material weakness in internal controls over financial reporting (ICFR) for revenue recognition (Catalent Form 10-Q, March 31, 2023, pp. 52–53):

> Specifically, we did not maintain effective controls to properly identify and assess the accounting treatment of modifications to arrangements that were accounted for under ASC 606, Revenue from Contracts with Customers. The reviewer had insufficient knowledge of the requirements of the ASC 606 revenue recognition accounting model and therefore the review procedures were not performed with the necessary level of competency to prevent or detect a material misstatement on a timely basis. Furthermore, the compensating control to review the accounting assessments for contract modifications was not sufficiently designed to detect accounting misstatements ... these control deficiencies resulted in an immaterial revision to our June 30, 2022, consolidated financial statements to correct an overstatement of revenue of $26 million.

On May 16, 2023, Catalent received a delisted notice from the New York Stock Exchange because the company was not in compliance with timely filing criteria for filing Form 10-Q for the quarter ending March 31, 2023. The company filed the report on June 12. This material weakness admission should find a prominent place in the ongoing shareholder lawsuit.

Catalent filed a Form 10-K/A (amendment of original Form 10-K) on June 12, 2023, for the fiscal year ending June 30, 2022, after discovering the “error” in the customer arrangement account with respect to ASC 606 at the Bloomington, Indiana facility. EY, Catalent's external auditor, still stated that the company's financial statements conformed with GAAP, except to the effect of the ASC 606 material weakness described in the third paragraph of the ICFR report, expressing an adverse opinion thereon. Catalent's Third Quarter Fiscal Year 2023, Form 8-K mentioned the $26 million "error," and the fact that EY restated its opinion on Catalent's ICFR as of June 30, 2022, because of the material weakness.

Conclusion

When accounting scandals erupt in direct relation to specific crises, such as the COVID-19 pandemic, would the financial community be able to curtail them? As evidenced by the details of the Catalent case, accountants need to be more vigilant in their scrutiny of revenue recognition standards within the healthcare industry in the wake of a global crisis. Investors, concurrently, should exercise their rights to seek redress from seemingly fraudulent actions committed by actors within this industry. In discussing the securities fraud litigation brought against Catalent, this article serves to highlight the nature of accounting-related fraudulent activities arising from the circumstances created by the global pandemic; in this instance, a short-lived surge in demand for vaccines that resulted in an overabundance of supply.

The class action lawsuit brought against Catalent by the City of Warwick Retirement system effectively communicated the basic touchpoints of the company's seemingly negligent actions. Given the regulations set forth in ASC 606, it appears that Catalent did not adhere to the appropriate application of GAAP in its revenue recognition related to COVID-19 vaccine sales. The company reported sales prior to fully completing the contract arrangement. As a consequence, Catalent consented to restate its 2022 financial statements to correct for a $26 million overstatement in sales revenue (although Glasshouse Research findings purport the overstatement is upwards of $500 million). As more information continues to be revealed, perhaps other plaintiffs will come forth.

Several key pieces of evidence provide a solid foundation in support of the complaint against Catalent. The unveiling of pertinent details, such as Catalent's admission of a material weakness in ICFR, might lead one to wonder if the SEC will take any formal action. In addition, the current class action lawsuit plaintiffs may be well advised to consider this admission as a steppingstone to strengthen their accusation of Catalent's false financial reporting. However, Glasshouse Research analysts and the City of Warwick Retirement System lawsuit plaintiffs did not specifically address Catalent's misapplication of contract revenue recognition as a source of potentially fraudulent reporting. The discussion presented in this study provides strong support for explaining the premature nature of the company's revenue recognition practices as yet another steppingstone on the possible path to successful litigation.

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