Counsel for a pharmaceutical company retained Cornerstone Research to assess damages in a securities class action alleging the company misled investors about a drug’s approval probability. The company’s stock price dropped substantially after the company announced its drug had received a non-approvable letter from the FDA after completing Phase III clinical trials. Cornerstone Research analyzed the extent to which the pharmaceutical company’s failure to fully disclose results from earlier clinical trials misled investors and caused the stock price drop.

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As part of our analysis, we reviewed other drugs that had reached Phase III clinical testing and found that the overwhelming majority were approved. Our analysis demonstrated that even if the test results from earlier clinical trials had been fully disclosed, entry into Phase III clinical trials would still have strongly suggested to market participants that the drug would ultimately be approved. As a result, the announcement of the FDA non-approvable letter would still have led to a large stock price decline.