

## APPENDIX: Summaries of Cases

This appendix presents summaries of the cases considered in our article, Alexander Dyck, Adair Morse, and Luigi Zingales, "Who Blows the Whistle on Corporate Fraud?" In each of the summaries, we always identify the actor that the documentary evidence indicates as the whistleblower, including a representative quote from the available evidence. In case of an unusually high level of short seller activity, we reclassify the whistleblower as a shortseller and provide a graph of the short seller activity surrounding the public revelation of the alleged fraud. We define an unusual level of short interest as average short interest position (from Bloomberg) during the three months prior to the fraud revelation date being more than three standard deviations higher than the year prior.

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### Legend



Smoking gun indicator – We have a higher degree of confidence in the classifications of whistleblower for these observations.

### 1. 3Com Corporation 97

05/23/1997 to 11/05/1997

Whistleblower: Initially newspaper – later reclassified to shortseller based on short interest.

Investigative reporting by the San Francisco Chronicle following 3Com's quarterly financials uncovers a major accounting irregularity in the merger of 3Com's with US Robotics. Subsequent New York Times reporting reveals revenue inflation that among other things involved ignoring newly acquired US Robotics losses, further hidden by channel stuffing of the distribution lines. An SEC inquiry forces 3Com to revise its accounting methods. 3Com settles the class-action suit for \$259 million.

"Even before the merger was complete in June, according to the 10-Q, it appears 3Com took the unusual step of essentially shutting down US Robotics for two months -- until May 24. During that time, US Robotics' revenue dropped to around \$ 7 million per month from what had been around \$ 200 million."

The San Francisco Chronicle

October 15, 1997, Wednesday, Final Edition

Headline: Looking for Lessons From Childrens Place's Wayward IPO

Byline: Herb Greenberg

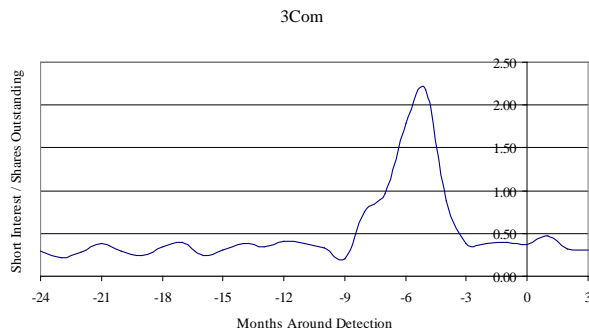
"The 3Com filing, called to public attention by Herb Greenberg, a financial columnist for The San Francisco Chronicle, comes close to confirming that U.S. Robotics, it reports, wanted "to reduce levels of channel inventory and conform sales return and allowance reserve philosophies" with those of 3Com."

The New York Times

October 19, 1997, Sunday, Late Edition - Final

Headline: Market Watch: Accounting Magic Erases Big Loss

Byline: Floyd Norris



### 2. Accredo Health, Inc.

06/16/2002 to 04/07/2003



Whistleblower: Auditor

Auditor Ernst and Young concludes that \$53.3 million of accounts receivables acquired in its 2002 purchase of the special

pharmacy unit of Gentiva is uncollectible. Accredo stock drops 40% on the announcement. The company's internal accountants discovered the information earlier in the year and the company failed to reveal. The company later fires and sues Ernst and Young for not discovering the mis-reporting of the receivables during the merger.

" Accredo said it is in discussions with its outside auditors and Gentiva management that could result in an adjustment to the purchase price recorded by Accredo or a charge against its 2003 earnings.

Reuters News  
April 8, 2003  
Accredo's chief executive, on a conference call.

### 3. Adelpia Communications

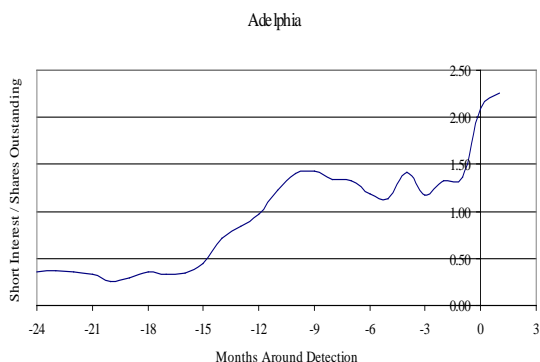
01/19/2001 to 04/01/2002

Whistleblower: Analyst – reclassified as shortseller based on short interest

Analysts become particularly attentive to Adelpia's balance sheet because of a pre-commitment of the controlling Rigas family to buy Adelpia stock at what was then an 80% premium, making Adelpia liable for \$500 million. Thus, when the firm announces \$2.3 billion of off-balance sheet co-borrowing agreements with the Rigas and cannot answer analysts' questions as to the assets securing the debt, the whistle is blown that the Rigas family is using co-borrowing to purchase Adelpia stock to fulfill their commitment. The firm restates its earnings for 1999, 2000 and 2001 after deciding to reflect \$1.6 billion in debt on its books and files for bankruptcy one month later. Adelpia pays \$715 million to resolve claims by the SEC and the DOJ. The Rigas family forfeits \$1.5 billion in assets. The firm's auditors Deloitte & Touche resolves SEC charges by paying a \$50 million fine. Two members of the Rigas family are found guilty of criminal charges and are serving 15-20 years. This class-action lawsuit has yet to be resolved.

"Pressed for details about what assets were used to back \$2.3-billion in off-balance-sheet debt, the company wouldn't say, beyond repeating that part of the collateral was 300,000 subscribers -- about 5 per cent of the base."

The Globe and Mail  
March 28, 2002



### 4. AES Corporation

04/26/2001 to 02/14/2002

Whistleblower: Firm

Utility AES announces that it will write off a UK power plant because the entity is unable to pay its bills and has been put in receivership. The firm had not been forthcoming as to the extent of the plant's financial difficulties. New UK power pricing regulations which made it unprofitable for the plant to produce power instead forcing it to buy electricity on the market to honor its contracts. AES settles for \$5 million.

### 5. Aetna Inc.

03/06/1997 to 09/29/1997

Whistleblower: Firm

Plaintiff alleges company disseminated numerous announcements concerning the successful integration of U.S. Healthcare, and its corresponding positive effect on the financial results of the company, while failing to disclose the company's claims backlog and inadequate reserve for medical claims, due to problems arising out of the integration of U.S. Healthcare. Eventually, Aetna acknowledges greater than expected HMO costs, mostly associated with failure to integrate U.S. Healthcare's operations. Management is ousted and Aetna settles for \$82.5 million.

## 6. Allegheny Energy, Inc.

04/23/2001 to 10/08/2002

Whistleblower: Employees

The New York Times reports the revelations of an executive about round trip trades between Allegheny's recently acquired energy trading unit and Enron. After Allegheny fires and sues a lead trader for self-dealing, it takes a series of charges, endures a series of investigations and loses 90% of its stock value before shutting down the energy trading unit. Allegheny settles with shareholders for \$15 million; the firm's case against Merrill is still pending.

“The executives said that the energy deal, a complex set of gas and power trades, was intended to inflate Enron's profits and drive up its stock price. Enron and Merrill Lynch, they said, agreed that the deal would be canceled after Enron booked the profits; it later was.”

The New York Times

August 8, 2002 – Page 1, Column 2

Headline: Ex-Executives Say Sham Deal Helped Enron

Byline: David Barboza

## 7. Amazon.com, Inc.

10/29/1998 to 10/23/2001



Whistleblower: Bond Analyst

A Lehman Brothers analyst warns that the company will face a "credit squeeze". Barron's publishes a series of articles criticizing Amazon.com's business model. The company announces slow growth and lowers revenue forecasts. Amazon settles for \$27.5 million.

“The Giant Killer RAVI SURIA TOOK ON MIGHTY AMAZON.COM LAST SUMMER. IT WAS THE BEGINNING OF THE END FOR THE DOT-COM CROWD”

Fortune

June 11, 2001

Jeremy Kahn

“When executives at Amazon.com announced the company's fourth-quarter results last week, they said that this would be the year that the Internet retailer would finally turn the corner toward profitability. But yesterday, Ravi Suria, an influential convertible bond analyst at Lehman Brothers, published a report arguing that this may be the year in which both time and money run out for Amazon.”

“Unlike many Internet stock analysts who focus on a company's revenue or visits to Web sites, Mr. Suria evaluated Amazon using the approach of a hard-nosed accountant who has a duty to evaluate whether the company will be able to sustain itself in the coming year. If an accountant has doubts about a company's prospects for survival, he or she must report to shareholders that there is substantial doubt that the company can continue to operate as a so-called going concern.”

The New York Times

February 7, 2001- Page 1, Column 2

Headline: A Lehman Bond Analyst Paints a No-Nonsense Portrait of Amazon

Byline: Gretchen Morgenson

## 8. Amerco, Inc.

02/12/1998 to 09/26/2002



Whistleblower: Auditor

As Pricewaterhouse Coopers is being replaced, Amerco, parent announces that the firm has material weaknesses in its inventory control, record retention and staffing competency. The outgoing auditor forces the firm to re-state two prior years of earnings, which show less equity and more liabilities on Amerco's books. Amerco's resources were used to buy certain assets which were later sold to entities privately held by the firm's executives for inadequate consideration. Amerco is formally investigated by the SEC, files for bankruptcy and dismisses a number of executives. Case settled for \$5M.

“According to an 8K filed late Tuesday with the Securities and Exchange Commission, PricewaterhouseCoopers has made some recommendations for the company, including that the internal control structure and monitoring process of management be strengthened to help readily find misstated account balances.”

**9. America Online Inc.**

08/10/1995 to 10/29/1996



Whistleblower: Auditor

After releasing extraordinarily high Q3 and Q4 earnings, despite massive service interruptions and defection rates, AOL's auditors, Ernst and Young who are privy to the full extent of the churn problem, push firm to reveal that accounting practices exacerbate mismatch between costs and revenues arising from customer retention problems leading to a restructuring starting with a one time accounting charge of \$385 million, five times over the total pre-tax net income it had ever reported, and wiped out 80% of shareholders' equity. The class action lawsuit suggests the firm misrepresented the appropriateness of the accounting practices and AOL settles shareholder lawsuit for \$35 million and pays \$3.5 million fine to SEC to settle financial reporting violations..

“Last week, AOL threw in the towel -- sort of -- by saying it would take a one-time charge of \$385 million .... Its filing flagged its amortization practice as subject to quarterly review. Asked whether it was pushed by its accountant (who didn't return a call), Lennert Leader, the chief financial officer, called the question ‘not relevant.’”

The Wall Street Journal

November 7, 1996

Headline: Did AOL Succeed in Spinning the Street?

Byline: Roger Lowenstein

**10. America West Holding**

11/19/1997 to 09/03/1998



Whistleblower: Employee

Maintenance workers at American Airlines file an unusually high number of FAA Safety Hotline complaints concerning contract labor standards, coinciding with labor negotiations with the firm over the use of outside contract labor. When the FAA places America West on the Safety Watch List the firm recognizes maintenance deficiencies and incurs expenses to address this situation, reversing their claims that increased FAA inspections following ValuJet's crash were simply routine. The FAA levies a \$5 million fine against America West. America West settles the class action suit for \$15 million.

“Federal regulators have stepped up scrutiny of America West Airlines in the wake of safety concerns raised by the carrier's mechanics and flight attendants.”

Seattle Post-Intelligencer

June 23, 1998

Headline: America West Airlines is Placed on the FAA's Safety Watch List

Byline: Dawn Gilbertson

**11. Ann Taylor Stores**

02/03/1994 to 05/04/1995

Whistleblower: Legal suit

Class action lawyers disclose the existence of "secret warehouses" in which Ann Taylor conceals non-sellable inventory. The lawyers become interested in the firm, presumably, after a series of missed earnings targets and forecasted losses. During the class period, the firm issues equity to alleviate its debt burden and to cash out its primary shareholder, Merrill Lynch. Ann Taylor settles for \$3.3 million, net of insurance. Merrill Lynch, also named as a defendant in the suit, settled with plaintiffs for \$3,000,000.

“The suit also alleges AnnTaylor hid about \$25 million in excess inventory in two secret warehouse locations to "hold" for later seasons, even though it should have written off the inventory or established a reserve. The effect of the "box-and-hold" scheme was to artificially inflate AnnTaylor's profits, according to the suit.”

Dow Jones News Service

April 26, 1996; 5:12pm

Headline: Ann Taylor Says No Merit

**12. AOL Time Warner, Inc.**

01/27/1999 to 07/24/2002



Whistleblower: Newspaper

Immediately following the announced merger of AOL and Time Warner, the New York Times and, especially, the Washington Post assert that AOL's accounting is aggressive, particularly in its booking of advertising revenue. The Washington Post correctly reports that AOL had been booking as revenue bartered advertising with other firms and full round-trip transactions. Insiders sold tens of thousands of shares during the price run-up prior to the merger. SEC and DOJ investigations result in \$400 million in re-statements of revenue and a \$510 million fine. Shareholder suits settle for \$2.4 billion and auditors settle for \$10 million with SEC.

“In such an atmosphere, and with its takeover of Time Warner Inc. imminent, AOL sought to maintain its breakneck growth in advertising and commerce revenue. Besides selling ads on its online service for cash, AOL boosted revenue through a series of unconventional deals from 2000 to 2002, before and after the merger, according to a Washington Post review of hundreds of pages of confidential AOL documents and interviews with current and former company officials and their business partners.”

The Washington Post

July 18, 2002

Headline: Unconventional Transactions Boosted Sales; Amid Big Merger, Company Resisted Dot-Com Collapse

Byline: Alec Klein, Washington Post Staff Writer

### 13. Aon Corporation

05/04/1999 to 08/08/2002



Whistleblower: SEC

In seeking SEC approval of a spin-off, Aon finds its accounts the subject of SEC scrutiny, resulting in a need to re-state earnings related to allowances for reinsurance from the September 11, 2001 attacks. The SEC presumably carefully inquires into Aon's accounting control due to its frequent restructurings, spin-offs and use of special purpose entities, according to a Merrill Lynch insurance analyst. Aon takes prior years earnings charges of \$50 million and writes off \$90 million in uncollectible reinsurance. Aon settles shareholder suits for \$7.3 million.

“Aon ... announced its accounts are being investigated by the US Securities and Exchange Commission (SEC).”

ReActions, Euromoney Institutional Investor, plc.

July 15, 2002

Headline: Aon's woes are company-specific

### 14. Applied Micro Circuits Corporation

11/30/2000 to 02/05/2001

Whistleblower: Analyst

After analysts become suspicious at the \$100 million sale of stocks by insiders, AMCC discloses that its announcements of growth and profit were false, and that the company will restate revenues. AMCC settles for \$60 million.

“**Applied Micro Circuits** Q3 earnings beat consensus estimates by \$.02, but A.G. Edwards & Sons Analyst Peter Andrew says the company's revenue growth is poised to slow down. “

[Business Wire](#)

16 January 2001

Headline: **ON24 Audio Investor Alert: Analyst: AMCC Can't Maintain Current Revenue Growth**

### 15. Apria Healthcare

03/02/1995 to 12/31/1998

Whistleblower: Newspaper

Fortune Magazine reports Apria's integration issues with hundreds of computer systems from its branches and plethora of recent acquirees. Specifically, the firm's billing system often fails to bill or incorrectly bills customers resulting in questions whether the accounts receivable are collectible. Following the article, Apria reveals a new plan to reorganize systems management, and retains Goldman Sachs to explore strategic options. Apria announces it will take a charge to write down the value of internally developed software and bad debt. The firm fires its CEO, president and CFO. In combination with a Medicare fraud class action suit, Apria settles the shareholder suit for \$42 million.

“A peek at the company's balance sheet shows the disruptions this technological problem wrought. During 1996, accounts

receivable--those bills still outstanding--jumped 30%, to \$335 million. More troubling, the average time it took to actually get customers to fork over their cash steadily lurched upward in this period, from 109 days to 131. Prior to the merger, that figure for both Abbey and Homedco was better than the industry norm of around 100 days. Paine Webber analyst Helen O'Donnell notes, "Whenever you see receivables go up, the question arises, 'Are they collectible?'"

Fortune Magazine  
31 March 1997

**Headline: HAVE THE URGE TO MERGE? YOU'D BETTER THINK TWICE EVEN MERGERS THAT SEEM BLESSED BY THE GODS CAN GO AWRY-- AS THE SAD TALE OF APRIA HEALTHCARE PROVES ALL TOO WELL.**

Byline: ERICK SCHONFELD

#### **16. Apria Healthcare**

03/02/1995 to 12/31/1998



Whistleblower: Employee

Apria branch manager Mark Parker informs the Justice Department of Apria's use of kickbacks payments to generate business eventually billed to Medicare. Apria settles this qui tam case with Parker and the DOJ for \$2 million. Apria settles the class action suit, in combination with shareholders suit concerning Apria's poor control systems, for \$42 million.

"Parker filed his suit in August 1995, but because it was a whistle-blower suit, it was filed under seal while the Justice Department investigated the charges. The case remained under seal until this summer, when the U.S. Attorney's Office in Atlanta decided to intervene."

The Orange County Register  
October 1, 1996

Headline: Apria accused of kickback scheme: Justice Department says the home health-care firm paid for referrals.

Byline: Jay Greene

#### **17. Ascend Communications, Inc.**

11/05/1996 to 09/30/1997



Whistleblower: Newspaper

Following the announcement by Ascend forecasting its new product rollout in time to beat the competition, the San Francisco Chronicle publishes an article questioning Ascend's ability to meet the deadline with a workable product. During the implementation period, Ascend executives sell stock valued over \$40 million and consummate a merger with Cascade Communication. The class period ends when Ascend releases earnings sharply below estimates due to significant product delays and glitches. Ascend settles the subsequent class action suit for \$5.45 million.

"Last Tuesday, Ascend announced that it would, indeed, start shipping its 56-k commercial modem in January.... Just one problem: The chips for the Ascend modem are being manufactured by Rockwell International. Last month Rockwell announced that samples of its 56-k chip would be available for "evaluation and pricing" in January. But actual shipments weren't expected until a few months later, perhaps as late as summer."

The San Francisco Chronicle  
November 7, 1996

Headline: Is U.S. Robotics Going to Give Ascend a Run for Its Money? / Also, ever wonder what Micron's ex-CEO is up to?

Byline: Herb Greenberg

#### **18. AT&T Corporation**

10/25/1999 to 05/01/2000

Whistleblower: Firm

AT&T fails to report that its core businesses -- long distance and business services -- are being hurt by wireless technology and by changes implemented at AT&T, particularly in reference to attrition resulting from a joint venture with Concert PLC. AT&T loses two large clients, an arm of the U.S. government and B.P., which trigger the release of revenue shortfall to the public in the earnings announcement process. In the class period, AT&T issues a \$13 billion initial offering of tracking stock on its wireless business. AT&T settles for \$100 million.

#### **19. AT&T Corporation : AT&T Wireless Group Tracking Stock**

04/26/2000 to 05/01/2000

Whistleblower: Newspaper

Business Week raises concerns about the valuation of AT&T Wireless in an IPO. Subsequent allegations are that AT&T Corp.'s CEO reported optimistic 1999 third-quarter results and unrealistically profitable growth, in order to keep the stock price above \$57 / share. AT&T Wireless' prospectus and registration statement also contained "misstatements and omissions of fact". AT&T settles for \$100,000,000

"...Yet before you usher AT&T Wireless into your portfolio, think twice. Actually, think four times. ..."

"Third, think over AT&T Wireless' market position and profitability. With the advent of Verizon and the SBC-BellSouth deal, AT&T Wireless is far from leading the U.S. market in subscribers and revenues (table). "As a result," AT&T's filing notes, "these competitors may be able to offer nationwide services and plans more quickly and more economically." To get where it is now, AT&T had to spend freely. Last year, it paid \$367 to win each new subscriber. GTE and Vodafone AirTouch, two-thirds of the Verizon group, spent \$269 and \$238, respectively. The third part, Bell Atlantic, last year averaged \$172 per new subscriber. It expects Verizon's average to run under \$200. From \$70 million in 1997, AT&T Wireless' operating loss swelled to \$666 million in 1999. Verizon hasn't posted a comparable figure, but GTE and Bell Atlantic's combined 1999 wireless operating profit neared \$1.4 billion. SBC and BellSouth's topped \$1.6 billion."

Business Week

May 1, 2000 – Number 3679

Headline: The Static in that AT&T Wireless IPO Wall Street's Frenzy, combined with the AT&T name, mask important red flags for investors

Byline: Robert Barker

## 20. Atlas Air Worldwide Holdings, Inc.

04/18/2000 to 10/15/2002

Whistleblower: Auditor

Auditor Ernst and Young, replacing Arthur Anderson, requires Atlas Air Worldwide to restate earnings for 2 years, for not reporting expenses and overstating inventories, resulting in the collapse of stock price from \$45.69 to \$1.70. An SEC investigation then finds that controlling shareholders sold over \$160 million worth of shares in two offerings. Atlas enters bankruptcy.

"Atlas Air Worldwide Holdings Inc. in Purchase is under an informal investigation by the U.S. Securities and Exchange Commission (SEC) in connection with the company's recent statement that it will have to restate its earnings for fiscal years 2000 and 2001, a company official confirmed. ... "We have been conducting a systematic review of our financial records and accounting policies," Richard H. Shuyler, Atlas Air chief executive officer, said in a written statement. "We have now determined that adjustments will be required in the area: of inventory obsolescence, maintenance expense and allowance for bad debt." Berry said that when Atlas executives certified the reports they believed them to be accurate. But after the company replaced its independent auditor Arthur Andersen L.L.P. with Ernst & Young L.L.P., some inaccuracies were discovered."

## 21. Aurora Foods, Inc.

10/28/1998 to 04/03/2000

Whistleblower: Auditor

Auditors discover a memo detailing how to manipulate numbers and refuse to approve company statements. After a delay in quarterly filing, company announces resignation of four top executives (Chairman/CEO, vice chairman, executive vice president and CFO). Aurora reduces its earnings by \$43.3 million and \$38.3 million, respectively, for 1999 and 1998. Aurora settles for \$36 million and officers pay fine of \$1.7 million to settle SEC action.

"Four senior management officials at struggling Aurora Foods Inc., owner of such well-known brands as Duncan Hines and Aunt Jemima, resigned Friday as the company launched an investigation into its internal accounting practices. Aurora Food's board said it has formed a special committee with its New York-based auditor PricewaterhouseCoopers to investigate Aurora's accounting practices that it expects will result in a charge against 1999 earnings and could affect earnings projections for 2000. "It's pretty apparent that there's a difference opinion between the auditors and management," said David Goldman, a Bank of America analyst who follows the company. "Management believes that the retail promotion expense should be deferred into future periods; auditors believe that it should be recognized in the current period ... There's no hard and fast rule and the auditors are demanding a conservative approach."

AP Business Writer

February 18, 2000

Headline: Execs Quit Aurora Foods Amid Probe

Byline: Kim Curtis

## 22. Bank One Corporation



10/02/1998 to 11/10/1999



Whistleblower: Customers

By imposing late fees and penalties on payments to its First USA credit card without proper controls in posting payments, Bank One induces high attrition and generates massive numbers of complaints to the Office of Comptroller of the Currency. The Comptroller's office, forces the firm to disclose its troubled credit card operations and revise its earnings downward. The internal pressure leads to a shakeup of management and the board and a \$725 million restructuring charge. In final settlement, Bank One settles for \$39.9 million.

“Complaints like Deadrick's about First USA's unfair fees and charges have been pouring in, not just to Kiplinger's and other media, but to Better Business Bureaus, federal and state regulators, plaintiffs' attorneys who have filed class-action lawsuits against First USA, and the public at large through Internet discussion groups.”

Kiplinger's Personal Finance Magazine  
November 1999; Vol. 53, No. 11; Pg. 104  
Headline: Gotcha!  
Byline: Kristin Davis

### 23. BankAmerica Corporation

10/01/1998 to 10/13/1998

Whistleblower: Firm

BankAmerica announces that it is writing down \$372 million in lending to D.E. Shaw for the hedge funds' highly leveraged exposure to the Russian bond default. Although BankAmerica had known of its exposure during the period of the Russian shock and Long Term Capital Management collapse, it fails to reveal the extent of lending to D.E. Shaw or the exposure of D.E. Shaw to the shock, focusing instead on its meg-merger with NationsBank. BankAmerica takes over \$20 billion in D.E. Shaw's bond portfolio, which continues to generate losses for the bank as do yet outstanding loans to the hedge fund. BankAmerica settles for \$490 million.

### 24. Bausch & Lomb, Inc.

01/27/2000 to 08/24/2000



Whistleblower: Newspaper

A Business Week article uncovers product line stagnation in Bausch & Lomb's core lens care products business. The Business Week attention follows an announcement by the firm that it would miss earnings expectations with short-term weak sales. The firm had not yet admitted that its core product revenues were being eroded by competition and that new product developments were unsuccessful; the failing nature of both sectors allegedly had been known by the firm for most of the year. During the class period, Bausch and Lomb actively invests in new product R&D and explores opportunities for acquisitions through which it can market the new business lines to generate successes in failing endeavors. The firm settles for \$12.5 million.

“The numbers made it painfully clear that while Carpenter has been busy chasing new growth markets like lasers, the company's biggest business, contact lenses and lens-care products, remains a major drag.”

Business Week  
August 7, 2000  
Headline: Bausch & Lomb's Blurry Sales Picture: The company is chasing new growth markets, but investors are losing patience  
Byline: Rochelle Sharpe

### 25. Baxter International, Inc.

01/24/2002 to 07/18/2002



Whistleblower: Firm

Baxter repeatedly assures the market of its sustained growth even though two of its large divisions faced eroding sales. Baxter finally admits to shortfalls in meeting expectations at a quarterly announcement. Although the case was originally dismissed, the Appealate Court reversed the dismissal because insiders sold more than normal during the period and because of the misleading optimism. The case has not settled yet.

### 26. BellSouth Corporation

11/07/2000 to 02/19/2003

Whistleblower: Firm

In the environment of post-WorldCom turmoil in telecommunications, BellSouth announces that it is experiencing nearly



worldwide earnings shortfalls. The last item on BellSouth's newswire is a charge of \$168 million for uncollectible accounts receivable. BellSouth had been performing services for customers who were never billed ('phantom customers'). A change in accounting procedures results in an additional charge of \$500 million. Bell South settles for \$35 million.

**27. Bergen Brunswick Corporation**

03/16/1999 to 10/14/1999



Whistleblower: Equity holder

Investors raise concerns about accounts for acquisition when the company announces the PharMerica acquisition. Subsequent investigation reveals that false financial statements arising from the previous Stadlander acquisition, collapsing BBC stock price. BBC settles for \$28 million.

“Shares of Bergen Brunswick Corp. (BBC) lost 9.1% Tuesday, continuing a recent descent that observers say is linked to investor concern about the potential impact of its pending acquisition of PharMerica Inc. (DOSE). Bergen, a wholesale drug distributor, agreed in January to acquire PharMerica, a major supplier of drugs to the long-term care industry, for \$1.4 billion. Concern about the buy stems from Medicare changes made last year that affect the long-term care industry. Under the changes, Medicare shifted reimbursement to nursing homes from a cost-based method to a prospective payment system (PPS). That means Medicare now pays nursing-home companies a fixed amount for each type of service they provide rather than for costs as they are incurred.”

Dow Jones News Service

March 23, 1999 – 04:17 PM

Headline: Bergen Brunswick Dn 9.1%; Observers Cite Pending Acquisition

**28. Bristol Myers Squibb Company**

03/22/2001 to 03/20/2002

Whistleblower: Firm

After calling its new drug Vanlev "the most important drug in the pipeline", Bristol Myers withdraws its FDA application when it discovers in its clinical trial results that Vanlev has potentially deadly side-effects to the throat. The announcement of withdrawing the application was made in March, 2002 when the clinical trial results were available to Bristol Myers in September of the prior year. Additionally, the allegation claims the firm knew that Vanlev's trials aimed at reducing hypertension were not stronger than an existing, cheaper drug already on the market.

**29. Bristol Myers Squibb Company**

09/09/2001 to 01/04/2001



Whistleblower: Newspaper

The Cancer Letter, a research newspaper, obtains a copy of the FDA's letter to Bristol Myers saying that they refused to consider the application for approval of Erbitux, a cancer drug being developed in a financing arrangement between Bristol Myers and ImClone. Bristol Myers, while coining Erbitux as a blockbuster, had failed to reveal that the clinical trials were inconclusive due to problems in the trial structure and that they had known that the FDA would not consider the application in that they understood the inconclusiveness of the outcome. A series of FDA, SEC, DOJ and Congressional investigations ensue, primarily aimed at ImClone. Bristol Myers writes off \$735 million of the ImClone investment and forces a change in management at ImClone.

“But on Friday, the Cancer Letter, a newsletter based in Washington, D.C., reported that it had obtained a copy of the letter sent by the FDA to ImClone. The letter detailed a long list of concerns that the FDA had over Erbitux's application that go far beyond record-keeping errors, the newsletter said. The FDA said, for instance, that in ImClone's 120-patient trial of Erbitux, it is impossible to distinguish the effect of the drug from that of Camptosar, a cancer drug sold by Pharmacia Corp. and used in concert with Erbitux.”

The Wall Street Journal

January 8, 2002

Headline: ImClone Shares Fall Amid FDA Concerns

Byline: Gardiner Harris, Staff Reporter of The Wall Street Journal

**30. Bristol Myers Squibb Company**

10/19/1999 to 03/10/2003

Whistleblower: Firm

Bristol Myers announces that revenues for the current period would not meet expectations because of an inventory glut associated with channel stuffing its distribution line in prior periods. The firm was shedding excess inventory and propping up earnings by offering inducements to wholesalers to buy product for future demand. Bristol Myers re-states 1999-2002 earnings by \$2.75

billion. The firm settles with the SEC for \$150 million and with shareholders for \$300 million.

**31. Broadcom Corporation**

07/31/2000 to 02/26/2001

Whistleblower: Newspaper

The Wall Street Journal reports that Broadcom uses warrants, effectively as discount coupons for Broadcom stock, as an incentive for purchasing product, but does not record the expenses and thereby increases its sales by hundreds of millions of dollars. Broadcom revises its accounting method for warrants, and lowers earning estimates due to cancelled warrant contracts. Broadcom settles for \$150 million.

“The questions surround Broadcom's accounting for warrants -- or rights to buy stock -- issued to customers of companies that it acquires as an incentive to buy products. The transactions are complex. But the thrust of the criticism is that Broadcom effectively is providing a discount to these customers that is not clearly reflected in its financial statements.”

The Wall Street Journal (Eastern Edition)

February 27, 2001

Headline: Warrant Deals Raise Concerns on Broadcom

Byline: Molly Williams

**32. Cambrex**

10/21/1998 to 07/25/2003



Whistleblower: Newspaper

Cambrex announces that it needs to restate \$5 million in earnings for 5 years, and lowers guidance for earnings due to the loss of a contract. The Chemical Market Reporter later reveals the specifics of the contract which precipitates a market response. An SEC formal investigation ensues and SEC issues a cease and desist order.

“Cambrex had a 37% drop in its share price following the loss of a biopharmaceutical manufacturing contract. This has subsequently been revealed as the Fabry's disease treatment Replagal (agalsidase alfa). Transkaryotic Therapies (TKT) cancelled the contract after the US FDA turned down a registration request for Replagal early in 2003.”

Chemical Market Reporter

April 28, 2003

Headline: Cambrex Mystery Contract Revealed as TKT's Replagal

**33. Campbell Soup Company**

11/18/1997 to 01/08/1999

Whistleblower: Firm

In revealing that its supply chain management needed restructuring, Campbell discloses that it had been channel-stuffing its supply line to meet quarterly revenue expectations. The internal pressure to restructure its supply logistics to achieve future cost-savings forces the information to light. Campbell settles for \$35 million.

**34. Cardinal Health, Inc.**

10/24/2000 to 06/30/2004

Whistleblower: Newspaper

The Wall Street Journal reports that Cardinal Health has recorded \$22 million from a settlement with its supplier as operational profit in the current period, without which Cardinal would have missed earnings forecasts. As a result of the media attention, the SEC commences an informal inquiry and then a formal investigation into Cardinal's practice of booking revenues and expense. The firm has been deliberately manipulating inventory processes such that it could classify bulk pass-through shipments as operational revenue. The firm re-states three years of earnings, fires its CFO, pays \$600 million to settle shareholder suit and \$35 million to settle with SEC.

“In April 2003, the Wall Street Journal reported that Cardinal had recorded \$22 million of an anticipated legal settlement with vitamin makers that the company had accused of overcharges - in advance of the actual settlement.”

Dow Jones Newswires

May 14, 2004

Headline: Update: Cardinal Health Says SEC Inquiry Now Formal Probe

Byline: Dinah Wisenberg Brin

**35. Cendant Corporation**

05/28/1997 to 04/15/1998

Whistleblower: Firm (Employee)

When integrating with newly acquired partner CUC, Cendant's accounting staff discovers irregularities that eventually are tabulated to be \$500 million in false revenues stated by CUC. Criminal investigations later find the executives of CUC guilty of accounting fraud undertaken for personal profit. Cendant settles lawsuit for \$2.85 billion, auditors settle with SEC for \$335 million, and two officers each ordered to pay \$3.27 billion.

“The possible accounting fraud was discovered as responsibility for the company's accounting functions was transferred from former CUC personnel to former HFS accounting staff while preparing to report first-quarter 1998 results.”

Reuters News

April 15, 1998 - 6:39pm

Headline: Focus - Cendant fairy tale unravels amid probe.

Byline: Eric Auchard

### **36. Central Parking Corporation**

02/05/2002 to 02/13/2003

Whistleblower: Firm

As the last quarterly statement before leaving, the CFO announces a large charge to increase the reserve and accounts payables, which have been underreserved as Central Parking Corp. goes below debt covenants and wishes to renegotiate. Central Parking Corp. settles for \$4.85 million.

### **37. Ceridian Corporation**

01/23/1996 to 08/26/1997

Whistleblower: Firm (employee)

Tests of Ceridian's highly anticipated payroll software product during summer 1997 uncover difficulties in processing speeds and higher-than-expected installation costs, both of which were known to the firm prior to its disclosure. Ceridian announces concurrently that it is selling its defense electronics unit and halting development on its major software project, resulting in a \$150 million charge. Ceridian settles for \$5.2 million.

### **38. Charter Communications, Inc.**

11/09/1999 to 07/12/2002



Whistleblower: Analyst

Analysts raise concerns about accounting at Charter, particularly how it had capitalized 30% of its installation labor costs over an extended time period. Charter Communications has sold \$900 million worth of junk bonds before the story came out. Charter Communications settles for \$83 million.

“Shares of Charter Communications Inc. (CHTR) fell Thursday after Merrill Lynch downgraded the company, citing lack of positive free cash flow, the company's high leverage position and the general accounting worries in the cable sector. Merrill analyst Jessica Reif Cohen, who changed Charter's near-term rating to "neutral" from "strong buy," also cited concerns about what investors will find after the company reveals more of its accounting practices, which it promises to do in its upcoming 10Q filing. Ms. Cohen said Charter has a more aggressive capitalization policy, citing the company's top-of-the-industry earnings before income tax, depreciation and amortization margins and high capex spending per basic subscriber. “The mere fact that Charter is taking such an aggressive stance could lead investors to question all practices.””

Dow Jones Business News

July 18, 2002 – 07:45 PM

Headline: Charter Communications Shares Fall After Merrill Analyst Downgrades Stock

Byline: Roger Cheng

### **39. CHS Electronics, Inc.**

06/21/1998 to 03/21/1999



Whistleblower: Short-seller

Short-sellers attacked CHS' Q4 earnings as being propped up by unexpected tax benefits abroad and that it needed larger-than-expected gain from foreign currency exchange to beat analysts' earnings estimates. An internal audit then uncovers accounting irregularities such as misleadingly describing the amount of its vendor rebates and improperly keeping certain assets off balance sheets, thus inflating stock price, enabling the company to continue to grow through aggressive acquisitions. CHS settles for \$12.8 million.

“Short-sellers, who profit from declines in share prices, attacked CHS' fourth-quarter 1997 earnings, saying they were propped up by unexpected tax benefits abroad. Later they stressed that CHS needed a larger-than-expected gain from foreign

currency exchange to beat analysts' earnings estimates for the first quarter of 1998. The nasty second-guessing of CHS' numbers dragged down the company's stock price and prompted Osorio to wage war against the short-sellers. The Dow Jones News Service quoted Osorio as saying that the shorts cause an "incorrect perception in the market." He said they will "have to be ready to swing indefinitely against an ocean of revenue and profits."

The Miami Herald – Florida

March 28, 1999

Headline: Miami-Based CHS Electronics' Shares Felled by Scandal, Market Slowdown

Byline: James McNair

#### 40. Cigna Corporation

05/02/2001 to 10/24/2002

Whistleblower: Firm

Contrary to Cigna's claims that its operating income would not be materially affected by its discontinued reinsurance division, the firm announces over the course of two months that it will take over \$1 billion in charges to cover re-insurance obligations related to minimum death benefits and workman's compensation. During the class period, Cigna raises \$250 million in new equity. The announcements arise out of Cigna's closing of its re-insurance business, which once captured 50-80% of the market. Cigna not only failed to disclose its exposure but also failed to undertake standard hedges common for insurance business. Cigna settles for \$93 million.

#### 41. Cisco Systems

08/10/1999 to 02/06/2001

Whistleblower: Firm

A Network World report, picked up by the San Francisco Chronicle, says that Cisco's previously-admitted inventory problems are inhibiting the shipment of key products. Two weeks later Cisco's management, who has maintained bullish growth projections, report earnings below estimates. In the class period, the firm uses its stock in numerous acquisitions and at the same time has fails to write off uncollectible finance receivables and ships incomplete and faulty product to buy time with its clients. The firm reports a \$2.69 billion loss after taking a \$2.2 billion charge to write down inventory. The class-action lawsuit settled for \$92 million.

#### 42. Citizens Utilities Co.

09/05/1996 to 07/11/1997

Whistleblower: Employee

After a company whistleblower came forward with documents showing that Citizens has sought to evade state regulation and mishandled its accounts, the Public Service Department of Vermont found that Citizens has been "practicing deceit and showing contempt for the rules in Vermont for more than 30 years" to smooth earnings. Citizens misrepresented material information concerning the company's telecommunications expansion and failed to disclose at all relevant times that the entrance into the long distance telephone market was failing. Citizens scales back its expansion plans, takes \$185 million charge, and reduces capital budget by \$175 million.

"A fired **Citizens Utilities** vice president acknowledged Monday that the company had used flawed accounting practices in managing projects in northern Vermont, and that past company testimony to the Public Service Board had been inaccurate."

Associated Press Newswires

6 January 1997

Headline: Citizens' witness: Accounting was flawed

Byline: DAVID GRAM

#### 43. CMS Energy Corporation

08/03/2000 to 05/10/2002



Whistleblower: SEC

Post-Enron investigations by the SEC uncover round-trip trades made by CMS. In one year, round trip trades accounted for \$4.4 billion, 98% of CMS's revenue. Investors were misled not only to the value of CMS, but also as to the liquidity of the wholesale electric market. CMS restates earnings for two years and the SEC charges CMS and three executives. CMS settles with shareholders for \$200 million.

"The Securities and Exchange Commission is widening its probe of the big energy company Dynegy Inc., examining two pairs of massive electric-power trades last fall -- executed at precisely the same moment for exactly the same price -- that

canceled each other out and didn't yield any profits for Dynegy or its trading partner.”

The Wall Street Journal

May 9, 2002

Headline: Size and Timing of Dynegy Trades Draw Scrutiny – SEC Widens Its Probe of Big Energy Company; “Not the Same as Enron”

Byline: Paul Beckett and Jathon Sapsford

#### 44. **Coeur D'Alene Mines Corporation**

01/09/1995 to 07/11/1996

Whistleblower: Firm

Coeur d'Alene reveals that its Chile gold mine would not commence operations in the present year and that it's recently-acquired New Zealand mine would be closed, both admissions reflecting readily observable operations. The firm had previously stated that both sites were operating according to or below budget. Coeur d'Alene writes down impaired assets in Chile and takes a loss on New Zealand operations while suing the previous owner. The firm settles with shareholders for \$13 million, \$6 of which is obtained from the settlement with the New Zealand seller of the mine.

#### 45. **Cole National Corporation**

01/31/1998 to 05/16/2003



Whistleblower: Auditor

In Deloitte & Touche's initial audit after assuming the account from failing Arthur Andersen, Deloitte suggests that Cole should spread its warranty revenue over the length of the contracts. Cole announces that it will restate earnings from the past five years, as a result of the revenue recognition changes. Following the announcement, the SEC commences an informal inquiry into Cole's previous accounting methods. Cole settles the shareholder suit for \$5.4 million.

“Cole National Corp., operator of the Pearle Vision eyewear chain, said on Tuesday it will restate its financial results since 1998 to change the timing of revenue recognition from the sale of warranties. Cole said it believed that recognizing the revenue at the time of sale was appropriate, based on a review of its former accountant, Andersen. But it said that upon the advice of its new auditor, Deloitte & Touche LLP, it has determined that it should recognize the upfront payment over the warranty period. The Cleveland-based company said it believes that applying the new accounting treatment would have reduced earnings per share for the 26 weeks ended on Aug. 3 by 5 to 10 cents a share.”

Reuters News

November 26, 2002 – 04:35 PM

Headline: UPDATE 2-Cole National to restate results, delay 10-Q

#### 46. **Columbia HCA Healthcare Corporation**

04/08/1994 to 09/09/1997



Whistleblower: Employee

After a number of qui tam whistleblower suits are filed against Columbia, the largest healthcare provider in the county, federal agencies begin an investigation that results in raids on a number of the hospitals. Columbia, which is also Medicare's largest biller, provided financial incentives for doctors to admit more patients, inflate billing record, and to 'upcode' the treatments by performing and billing Medicare for more serious treatments than is deemed necessary. The firm and executives are indicted for criminal Medicare fraud. Columbia HCA pays \$49.5 million to settle the shareholder lawsuit and \$631 million to settle with the government.

“More than a dozen people associated with Columbia/HCA Healthcare Corp. have secretly filed separate lawsuits against the company under federal whistle-blower laws, contending that the company has engaged in a variety of schemes to defraud national health care programs like Medicare, government officials said Monday. The sealed lawsuits, which were brought under laws that allow individuals to sue on behalf of the government, were filed long before federal agents raided Columbia last month. Several of the individuals who filed the suits were said to have provided information that government investigators used in developing their criminal inquiry.”

The New York Times

August 19, 1997

Headline: Whistle-Blowers Suing Columbia

#### 47. **Comdisco, Inc.**

01/25/2000 to 10/03/2000

Whistleblower: Firm

The firm, after a failed attempt to bring in investment bankers to consider an IPO, announces that it has exaggerated Prism's expansion into new markets but failed to disclose adverse factors against Prism. Comdisco ceases funding Prism's operations and writes off \$350 million in investments in Prism. Comdisco settles for \$13.75 million.

#### 48. **Comerica Incorporated**

07/17/2002 to 10/01/2002



Whistleblower: Industry regulator

An examination by Federal Reserve regulators results in Comerica restating earnings and taking a \$328 million charge to reflect over-valuation of assets in its Munder money management division. Comerica settles on SEC charges that it did not establish adequate loan-loss reserves as a result of poor controls. Comerica settles the class action suit for \$15 million.

“Comerica Incorporated (NYSE: CMA) today announced that it will record a \$328 million charge (\$213 million after-tax, or \$1.21 per diluted share) related to an incremental provision for credit losses and goodwill impairment for the company's Munder Capital Management subsidiary. The additional provision and charge-offs related to the second quarter were determined during a recent subsidiary regulatory examination.”

PR Newswire

October 2, 2002 – 06:30 AM

Headline: Comerica to Record a \$213 Million After-Tax Charge Related to Incremental Provision for Credit Losses, Goodwill Impairment

#### 49. **Compaq Computer**

07/10/1997 to 03/06/1998



Whistleblower: Analyst

Following the trail of a Compaq warning that the price wars are stiffening market share competition, industry analysts discover that Compaq has been channel stuffing to boost short-term revenues. Compaq soon thereafter announces an inventory over-supply problem, and responds with efforts to cut inventory levels. Shareholder suits settle for \$28.6 million.

“Some industry sources have speculated Compaq, in an effort to boost short-term results, was forcing resellers to absorb more inventory than they wanted, a practice known as “stuffing the channel. In a research note issued this morning, Goldman Sachs analyst Rick Shutte left unchanged his estimates on Compaq but said: ‘Near-term, we remain cautious on Compaq due to investor concerns of ‘channel stuffing’... longer-term, we continue to maintain that Compaq will continue to gain market share.’”

Reuters News

March 2, 1998

Headline: INTERVIEW/Compaq CFO says pricing very competitive

Byline: Richard Melville

#### 50. **Complete Management, Inc**

05/01/1996 to 08/13/1998

Whistleblower: Firm

As an effort to eliminate unprofitable activities and restructuring, CMI discovers and announces that, in order to secure a two year accounts receivable financing facility that has defaulted, CMI officers improperly recognized revenue on uncollectible receivables from its largest client. CMI settles for \$3.83 million.

#### 51. **Computer Associates International, Inc.**

02/27/1998 to 02/25/2002



Whistleblower: Newspaper

After Computer Associates announces that it is changing its revenue recognition process to spread sales over the life of projects, the New York Times reports that the firm's announcement and changes are an attempt to mask its improprieties. The NYT suggests the firm's layoffs are disguised as performance firings (to avoid severance pay) and that it uses a host of accounting tricks including (i) having 35 days in the last month of the quarter, (ii) re-rolling customer contracts to book further extended revenue, even at the expense of offering software free to induce contracting, and (iii) acquiring other firms with a customer base for the sole purpose of implementing a re-rolling opportunity to book revenue. After unsuccessfully trying to pay themselves \$1.1 billion in promised pay and being forced to return the compensation by shareholder suits, the executives of the firm are indicted for criminal fraud. The firm settles the shareholder lawsuit for \$174 million, the firm settles with the SEC for \$335 million and officers settle with the SEC for \$8.4 million.



“Since November, the company has fired hundreds of workers around the world, a dozen former employees said. The company would not disclose how many people had been let go, or whether its overall work force of about 18,000 had grown or shrunk in that time. “They did a mass layoff,” Ms. Welch said. “There’s no ifs, ands, or buts.” The fired workers said that the company, which makes software that many big companies use to manage their computer systems, is disguising a mass layoff as individual firings of subpar employees to avoid paying severance. If it lacks documentation for the firings, the company might also have opened itself to lawsuits that argue that the firings were discriminatory, labor lawyers said. There also could be questions about whether the company may have violated Securities and Exchange Commission rules that require companies to disclose all material facts about their performance to investors, Mr. Platt said. “If you have a mass layoff for economic reasons and you’re not reporting that, I think the S.E.C. would be very interested in that,” he said.”

The New York Times

March 20, 2001

Headline: Questions on Firings and Severance at Computer Associates

Byline: Alex Berenson

## 52. ConAgra Foods, Inc.

08/28/1998 to 05/23/2001

Whistleblower: Firm

In altering its internal control systems to meet compliance with the new SEC regulation SAB101, ConAgra discovers that a division has been booking sales at the contract date but not offsetting revenues when the customers delayed or did not take delivery. The division falsely boosted company earnings by \$120 million. ConAgra's board instigates a full internal audit and shortly thereafter releases the information to the SEC and to analysts. ConAgra settles the shareholder suit for \$14 million and the company settles with the SEC for \$45 million.

## 53. Concord EFS, Inc.

03/29/2001 to 09/04/2002



Whistleblower: Analyst

Analysts highlight Concord EFS charges incurred by renegotiation of contracts with telecommunication companies, in an effort to use its inflated stock price as currency to complete various acquisitions, and to allow insiders to sell over \$160 million worth of shares. Concord settles for \$13 million.

“Meanwhile, as Merrill Lynch analysts Stephen McClellan and Michael Maestas noted in their analysis of the quarter, Concord also took a \$16.8 million charge, excluded from the reported 18 cents per-share earnings, for costs related to the renegotiation of its contracts with the telecom companies that serve its transaction processing network. Merrill notes that the result should be annual savings of about two cents a share. But the charge wasn't well-disclosed. It isn't discussed in the earnings release, only in the 10-Q. Indeed, some analyst reports on the quarter seemed to have missed it entirely.”

Barron's

August 19, 2002

Headline: Profits from Debits: Concord-EFS is reaping rapid growth from debit-card transactions; And it shares are cheap

Byline: Eric J. Savitz

## 54. ContiFinancial Corporation Concord EFS, Inc.

01/28/1998 to 07/21/1999

Whistleblower: Firm

Suffering from lower interest rates and offering "sub prime" loans, ContiFinancial had to write down significant portions of the portfolios that were earlier booked at higher profits. Before announcing publicly such losses, insiders sold thousands of shares and the company completed several acquisitions. ContiFinancial settles for \$5.5 million.

## 55. Covad Communications

04/19/2000 to 05/24/2001



Whistleblower: Auditor

Auditor Ernst and Young refuses to allow Covad Communications to book promised revenues from internet service companies given significant concerns about probability of payment, forcing the firm to restate revenues and take a \$52 million accounting charge. In the meanwhile, Covad completed a \$500 million convertible bonds offering and the acquisition of BlueStar. Auditor Ernst and Young expresses doubts about Covad's ability to continue as "a going concern". Covad settles for \$16.5 million.

“In an interview last week, Mr. Knowing said he didn't learn until Oct. 16, the day before the earnings announcement, that Ernst & Young, Covad's auditors, wouldn't allow the company to book the revenues from the delinquent Internet providers.



Mr. Knowling said he had been personally trying to collect the accounts since late September, summoning a representative of each company to his office, for example.”

The Wall Street Journal

November 2, 2002

Headline: Covad Communications Chairman Quits Amid Poor Results, 90% Plunge in Stock

Byline: Scott Thurm and Joann Lublin

#### **56. Crompton Corporation**

10/26/1998 to 10/08/2002



Whistleblower: Government Agencies

U.S. and E.U. antitrust authorities open investigations into price fixing on five products manufactured by Crompton. Crompton cooperates with the agencies and thus is granted immunity against most criminal charges; however, much of the value of the firm has arisen from unsustainable fixed prices. Two executives are indicted. The firm pays antitrust penalties of \$50 million and begins to settle with consumer class actions groups.

“Crompton Corp. said Tuesday that it has been contacted by U.S. and European Union authorities concerning an investigation into allegations of collusive dealings in the rubber chemicals industry.”

AP Online

October 8, 2002

Headline: Crompton Cites Probe by Authorities

#### **57. Cumulus Media, Inc.**

10/26/1998 to 03/16/2000



Whistleblower: Newspaper

Inside Radio, a trade publication, quotes that PricewaterhouseCoopers had concerns regarding CMI's financials, which delayed the fourth quarter results three times. After announcing publicly that the auditors refused to sign-off on the earning reports, CMI further announces that the CFO had resigned a month ago, and that CMI's financials were overstated. PwC resigns quoting "material weaknesses" in CMI's internal controls. CMI settles for \$16 million.

“Shares of Cumulus Media Inc. plunged sharply on Wednesday, falling by nearly 29 percent, as speculation swirled over much-awaited results of fourth-quarter earnings and the departure of its chief financial officer. Cumulus declined to comment on a report in Inside Radio, a trade publication, which quoted unnamed sources this week as saying that PricewaterhouseCooper, the company's accountants, had concerns about how financials have been reported.”

Sentinel- Wisconsin

March 16, 2000

Headline: Stock of Milwaukee-Based Radio Company Continues Its Fall

Byline: Lee Bergquist

#### **58. CVS Corporation**

02/06/2001 to 10/30/2001



Whistleblower: Analyst

CVS continues to expand rapidly without revealing that a nationwide shortage in pharmacists is causing customer attrition from service delays. Credit Swiss First Boston analysts, concerned with increasing competition in the industry, conduct a survey of pharmacies and uncover a slowdown in prescription processing due to staffing problems. CVS scales back expansion, closes some stores, and settles for \$110 million.

“Shares of CVS Corp., the No. 2 U.S. drugstore chain fell 10 percent in Friday morning trade, after analysts at Credit Suisse First Boston downgraded the stock to hold from buy, citing concern about slackening pharmacy sales. CSFB analysts Ed Comeau and John Murphy said they downgraded the stock because of "increasing concern" about softer pharmacy sales since March, and staffing and service problems at CVS. The analysts conducted a survey of 77 CVS pharmacies in the past week and said it found problems with slowdown in prescription processing and longer wait times, as well as staffing problems of pharmacists and pharmacy technicians, which has also hurt service and processing.”

Reuters News

June 15, 2001

Headline: CVS Shares Take Hit Following CSFB Downgrade

**59. Dollar General Corp**

03/05/1997 to 01/14/2002

Whistleblower: Firm

Following the resignation of the CFO, Dollar General reveals that it has incorrectly accounted for property leases and tax liabilities. The new CFO and new auditors conduct investigations, resulting in a restatement of earnings downward for 1998 through 2000 by \$100 million. An SEC investigation into its accounting practices is settled for \$10 million and officers settle for \$1.4 million. Dollar General settles the class-action lawsuit for \$162 million.

**60. DPL, Inc.**

03/30/1999 to 08/14/2002

Whistleblower: Firm

At the insistence of Pricewaterhouse Coopers, DPL reveals that it has placed 25% of its assets in a portfolio of investments, some of which are invested abroad. The announcement comes as the energy firm takes a charge of \$1 billion to write off impaired portfolio assets in Latin America. Up until that point, investors did not know DPL had a Latin American portfolio. The CEO resigns, and DPL settles for \$110 million.

“DPL Monday said it would take a second-quarter \$110-mil, 92 cts/share (after-tax) writeoff against its \$1.1-bil in "financial assets," citing current economic forecasts and political uncertainty in Latin America.”

Platts Commodity News

July 1, 2002 – 05:28 PM

Headline: Platt’s – DPL sees \$110-mil Charge on Investments’ Falling Value

“An energy company rewrote its financial reports to comply with a federal order requiring executives to swear to the accuracy of their earnings statements. DPL Inc. announced the correction of its statements Wednesday, just meeting a deadline set by the federal Securities and Exchange Commission. DPL Inc., the parent company of Dayton Power and Light Co., also revealed the holdings of its \$1 billion financial portfolio for the first time Wednesday. "The level of interest in the details of these investments has increased dramatically as a result of national topics," said Art Meyer, DPL's vice president for legal and corporate affairs. "In response to that level of interest, we decided to provide it." At the insistence of its outside auditor, PricewaterhouseCoopers, the company announced that it cut 2001 profits by \$19 million, or 16 cents a share, and raised reported profits for the first half of this year by \$23 million, or 20 cents per share.”

Associated Press Newswires

August 15, 2002- 01:25 AM

**61. Dynegy, Inc.**

06/21/2001 to 07/22/2002



Whistleblower: Employee

After Dynegy fails to promote management trainee Ted Beatty, he quits the firm and takes with him documentation about a fraudulent tax-avoidance, cash flow enhancing scheme (Project Alpha) used by Dynegy with its special purpose entities. The Wall Street Journal reports a front-page article based on Beatty's documents. At the same time, Dynegy is being investigated by the SEC and energy regulator for round trip energy trading. The added scrutiny uncovers a final impropriety regarding the use of another special purpose entity (Catlin) to hide debt obligations and shift collateral to new debt. After turning over management and filing for bankruptcy, Dynegy settles for \$468 million and company settles with SEC for \$3 million.

“Last January, Dynegy Inc. didn't give Ted Beatty the promotion he felt he deserved. So in February, the management trainee resigned, taking with him documents that suggested questionable accounting at the Houston energy company. His plan was to find another job and then expose the wrongdoing. Part of that has gone as planned. Mr. Beatty and his wife, Maren, have watched as his documents, including details of a complex Dynegy deal called Project Alpha, led to the resignations of high Dynegy officers and ricocheted across the industry, prompting investigations of several other big energy traders. Dynegy has agreed to a fine and begun selling off assets in an effort to stay viable. It has been poetic justice for the Beattys, who say they are motivated by a desire to see right prevail. On April 3, The Wall Street Journal published a front-page article disclosing Project Alpha, based on Mr. Beatty's documents as a starting point and fleshed out with extensive interviewing of experts to make sense of the documents and corroborate them. For that article, the Journal agreed to maintain the Beattys' anonymity; since then, however, the Beattys have given express permission for their identity to be disclosed. Then in late April, Dynegy disclosed that the SEC had begun an informal inquiry into its finances. The company also said that after consulting with the SEC, it had decided to reverse Project Alpha's effect on its cash flow.”

The Wall Street Journal

November 25, 2002

Headline: Informer’s Odyssey: The Complex Goals And Unseen Costs of Whistle-Blowing --- Dynegy Ex-Trainee Encounters Short-Sellers and Lawyers, Fears Being Blackballed --- Seeking Justice and a Payday

Byline: Jathon Sapsford and Paul Beckett

## 62. E.W. Blanch Holdings

10/19/1999 to 03/20/2000



Whistleblower: Newspaper

Although a full quarter earlier analysts predict that E.W. Blanch will lose revenue to an industry-wide shock in re-insuring workers' compensation, the market does not incorporate the magnitude of the information until the WSJ predicts that Blanch will face earnings surprises after a competitor warns on earnings. Blanch CEO denies future revenue shortfalls as close as two weeks before the earnings shock, but meanwhile has taken a hedge position against his personal stock and, together with other executives, sold \$25 million in stock. The firm is sold to a UK-based reinsurance broker. Blanch settles shareholder suit for \$30 million.

"Shares of E.W. Blanch Holdings Inc. plummeted to a 52-week low after the insurance broker said it expects first-quarter earnings to fall well below expectations, largely because of lower domestic revenue, and said the head of its brokerage unit has resigned. The company blamed the lower-than-expected earnings on a reduction in domestic revenue from workers-compensation reinsurance placements, as well as large nonrecurring transactions. The company also attributed the shortfall to lower earnings from its international operations and the timing of certain "anticipated significant transactions." E.W. Blanch added that Rodman Fox, president and operating chief of the company's E.W. Blanch Co. unit, has resigned. Fox was also a member of E.W. Blanch Holdings' board of directors. A January report from The Wall Street Journal cited E.W. Blanch as one of the companies which may face financial hits from a spate of workers' compensation insurance deals that went wrong. E.W. Blanch, an intermediary on the workers' compensation deals, may be required to remit some past fees, the Journal reported. In addition, a recent quarterly report indicated such a settlement could affect revenue "in a material adverse manner," according to the Journal."

Dow Jones Business News

March 21, 2000- 11:04 AM

Headline: Insurance Broker E.W. Blanch's Shares Plunge on Earnings Warning

## 63. EEX Corporation

08/03/1995 to 08/05/1997

Whistleblower: Firm – reclassified as shortseller based on short interest

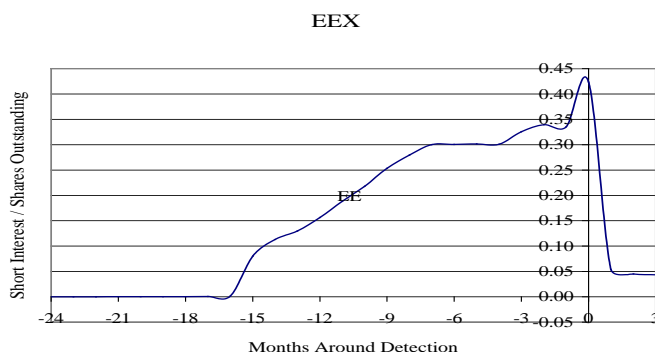
New management from acquirer Texas Utilities reveals on the day of the merger that the oil and natural gas reserve estimates in Enserch's EEX division need to be adjusted downward by 45%. Former Enserch shareholders had agreed to receive 0.225 of Texas Utilities stock plus 1.5 shares of EEX stock, an entity which is being spun off at the merger. EEX settles for \$25 million.

"Enserch Exploration slashed its estimate of its oil and natural gas reserves the day before it was spun off from its parent company, sending its shares falling 18 percent. Enserch Exploration issued a release after the stock market closed Monday that said it expects to cut its reserve estimates by the equivalent of 500 billion to 700 billion cubic feet of natural gas, or as much as 45 percent. Enserch Corp. said that soon after shareholders approved the buyout by Texas Utilities in November, it put in new management. Hamilton took over and ordered a re-evaluation of the company's reserves, the company said. The results of the review did not arrive until late last week and were presented to Enserch Exploration's board before being released to the public, Hamilton said."

Houston Chronicle

August 6, 1997

Headline: Enserch Exploration Refigures Reserves



#### 64. El Paso Corporation

01/29/2001 to 05/29/2002



Whistleblower: Equity holder

Oscar Wyatt, a large equity holder whose firm Coastal was recently acquired by El Paso, makes a public statement concerning El Paso's hiding debt in special purpose entities to avoid any balance sheet impact and to bypass the board in decision making. Of particular concern was El Paso's issuance of \$830 worth of debt in an off balance sheet deal with Credit Suisse First Boston. In addition, El Paso engaged in wash trades. The SEC initiates an investigation into El Paso's booking of hundred of millions of dollars of revenue from such contracts.

“In a further sign of the tensions roiling the energy industry, one of the largest shareholders of the El Paso Corporation attacked the company at its annual meeting today, calling for it to overhaul its accounting practices and change the way it does business. Oscar S. Wyatt Jr., the founder and retired chairman of the Coastal Corporation, which El Paso acquired for \$10 billion last year, called on El Paso to change the way it reports profits, to revamp its accounting and to return to a more conservative approach to calculating profits.”

The New York Times

May 21, 2002

Headline: Big Shareholder Mounts Attack on Energy Industry Accounting

Byline: David Barboza

#### 65. El Paso Corporation

02/22/2000 to 02/17/2004



Whistleblower: Government agency

The Houston U.S. Attorney General's office, while investigating allegations of wash trades and round tripping, discovers problems in the firm's hedge accounting. El Paso had entered into contracts via their merchant energy unit to hedge their natural gas risk. However, after selling the contracts to outside counterparties, the merchant energy group entered into separate contracts which offset the hedge position. El Paso takes a \$1 billion charge to ameliorate the accounting errors associated with the lack of hedge position.

“El Paso Corp.'s long-anticipated financial restatement will be even larger than previously expected because of a recently discovered hedge accounting issue, the company said Tuesday. The company said it first began to look at natural gas hedging positions it previously held because of the investigation by the Houston U.S. attorney's office into wash trades.”

Houston Chronicle

August 11, 2004

Headline: ON TWO / El Paso Sees Big Changes in New Figures / Gas Hedging a Bigger Problem Than Energy Firm was Anticipating

Byline: Tom Fowler

#### 66. El Paso Corporation

02/22/2000 to 02/17/2004



Whistleblower: Firm

El Paso's new management switches reservoir engineers and contracts for a new audit of oil and natural gas reserves in light of the SEC's increased scrutiny of competitors' reserves. The audit reveals the need to adjust reserves downward by 41%, to take a \$2.6 billion charge and to restate four years of earnings. The SEC launches a formal investigation.

DOUG FOSHEE, PRESIDENT, CEO AND DIRECTOR, EL PASO CORP.:

“Before we talk about the numbers, I thought it would be important to review the process of getting to the reserves that we booked at year end. I came on board at El Paso in September of 2003. At that time you'll recall the company had already had a series of disappointing results in terms of production volume and downward revisions to forecasted volumes during the year. Given this set of facts, I began a process of identifying the issues and crafting a plan to turn the production company around. In October of 2003, I conducted a series of field reviews that led me to believe that among other things we needed a fresh set of independent eyes on our reported reserves for the year end 2003. As it was late in the year, and particularly late for the year end calendar for reserve audits, we conducted an expedited review of third-party providers and selected Ryder Scott as our primary third-party reservoir engineer for 2003.”

FD (FAIR DISCLOSURE) WIRE

February 17, 2004

Headline: El Paso to Review Reserve Revisions Conference Call – Final

**67. El Paso Electric Company**

02/14/2000 to 10/21/2002



Whistleblower: Industry regulator

The Federal Energy Regulation Commission investigates El Paso in conjunction with Enron and other power providers for its role in inflating prices in the California energy crisis. El Paso colluded with Enron, Enron traders typically manned El Paso's trading desk, to defraud Californians by conducting round trip trades to manipulate prices. El Paso settles with the regulators for \$14 million, with consumer class action groups for \$1.5 billion and with its own shareholders for \$10 million.

“In a surprising development, FERC on 6/4/02 gave four energy traders --Avista Corp., El Paso Electric Co., Portland General Electric Co. (PGE) and Williams Energy Marketing & Trading Co. -- ten days to explain why their authority to sell wholesale power at market-based rates should not be revoked. The show-cause order (PA02-2) expressed extreme dissatisfaction over the four companies' responses to a May 8 data request FERC issued as part of its fact-finding investigation into whether Enron or any other power sellers manipulated Western power markets in 2000-01.”

Foster Electric Report

June 5, 2002 – REPORT NO. 259

Headline: Finding Their Response to Data Requests Unsatisfactory, FERC Orders Four Power Sellers to Explain Why Their Market-Based Rate Authority Should Not be Withdrawn Retroactively

**68. Electronic Data Systems Corporation**

09/07/1999 to 09/24/2002

Whistleblower: Analyst – reclassified as shortseller based on short interest

A Merrill Lynch analyst discovers that EDS has placed a bet on its own stock and was incurring a cost of \$225 million to unwind the losing position. This news came a week after EDS's announcement of an 84% reduction in its quarterly earnings which was precipitated by Proctor and Gamble's backing out of a news conference to announce a new contract with EDS. The bet by EDS on its stock came during a period of large client attrition due to the stagnation in the economy. The SEC formally investigates EDS for its treatment and disclosure of its investment portfolio. EDS settles shareholder suit for \$137.5 million.

“Electronic Data Systems Corp. made a costly, losing bet starting late last year on the price of its own stock, fueling concerns now about the company's liquidity, ability to pursue new business and the future of its management. The large provider of information services, already under fire for shortfalls in its earnings this year, said it borrowed \$225 million in commercial paper last week and used the funds to unwind obligations to buy its own shares. The company said it had taken on the obligations -- to purchase 3.7 million shares at prices above \$60 each -- starting in December 2001 in hopes of reducing the cost of its employee stock-options program. The benefit to the company would have come if its stock price had climbed. The stock, however, dropped. The unwinding of EDS's "naked" put options -- which carry the greatest risk as share prices fall -- was disclosed by analysts in reports last week and yesterday. EDS Treasurer Scott Krenz said the company didn't feel it was necessary to disclose last week's \$225 million payment because it was part of the "normal course of events" and won't affect earnings or free cash flow. Mr. Krenz explained that the \$225 million isn't part of the company's calculation of free cash flow. But he conceded that the payments were "cash out the door," despite the accounting treatment.”

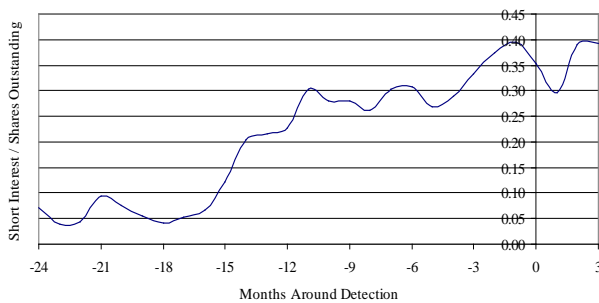
The Wall Street Journal

September 25, 2002

Headline: Leading the News: EDS Made Losing Bet on Its Stock --- Firm Borrowed \$225 Million To Unwind Obligations, Raising Slew of Concerns

Byline: Elliot Spagat and Gary McWilliams

Electronic Data



## 69. Enron Corporation

01/18/2000 to 10/18/2001



Whistleblower: Newspaper

The Texas version of the Wall Street Journal publishes a story in the fall of 2000 asking whether the profits from companies like Enron are just artifacts of the firms' manipulation of marking assets to market. A few months later, Fortune and the New York Times publish articles questioning the ultimate origin of value in the stock run-up of Enron and covering Enron's incredulous behavior in the California energy crisis, respectively. Meanwhile, following the Texas WSJ article, short sellers begin increased scrutiny of the firm and, in particular, into Enron's financing entities. Not long after the CEO resigns in August 2001, information comes to light that the firm had misrepresented the value of its assets by billions of dollars, and related party transactions were siphoning value from the firm to the benefit of executives. A number of other improprieties emerge. Shareholders have claimed \$30 billion in damage from now-defunct Enron; litigation continues. Officers settle with SEC for \$64.4 million and Auditors and investment banks settle with SEC for \$7.3 billion.

### JAMES CHANOS, SHORT-SELLER, TESTIMONY BEFORE THE HOUSE COMMITTEE ON ENERGY AND COMMERCE, 2/6/02.

"My involvement with Enron began normally enough. In October of 2000, a friend asked me if I had seen an interesting article in *The Texas Wall Street Journal* (a regional edition) about accounting practices at large energy trading firms. The article, written by Jonathan Weil, pointed out that many of these firms, including Enron, employed the so-called "gain-on-sale" accounting method for their long-term energy trades. Basically, "gain-on-sale" accounting allows a company to estimate the future profitability."

## 70. Enterasys Networks, Inc.

09/26/2001 to 02/01/2002



Whistleblower: Firm [Employee]

A finance executive at Enterasys uncovers documentation showing that \$4 million in sales revenue from the Asia-Pacific division should not have been booked according to GAAP regulations. Subsequent investigations discover revenue was over-booked by \$153 million for the 19 month ending September 2001, resulting from what appeared to be a systematic personal profit scheme by executives who are then fired. An SEC investigation ensues and is settled. Enterasys settles the class-action suit for \$50 million.

"In early February, Enterasys said an unnamed finance executive uncovered documentation indicating that revenue for a \$4 million sales contract booked last summer shouldn't have been recognized under generally accepted accounting practices. Enterasys said it then took up the matter with KPMG. Soon after, Enterasys learned of the SEC probe, and hired Boston law firm Ropes & Gray and accounting firm Deloitte & Touche LLP to review revenue-recognition practices at the unit."

New Hampshire Business Review

March 8, 2002

Headline: Enterasys Axes Three Asia Unit Employees

Byline: Jeff Feingold

## 71. Federal Home Loan Mortgage Corporation (Freddie Mac)

06/15/1999 to 06/06/2003



Whistleblower: Auditor

Pricewaterhouse Coopers takes over the Freddie Mac account from failing Arthur Andersen. Soon thereafter, the auditors instruct the firm to restate its financial investment growth as investment income rather than an increase in a hedge position. A resulting accounting probe results in the firing of the three top executives, one of them for altering financial diaries provided to the audit committee. Federal civil and criminal investigations as well as Congressional hearing soon follow resulting in evidence that the company used improper internal controls to smooth earnings. Shareholder lawsuit settles for \$410 million and company settles with SEC for \$125 million.

"Freddie Mac said yesterday that it will revise earnings for at least the past two years after its new auditor questioned its accounting for derivatives. The Reston-based mortgage finance company said it expects reported earnings for the past two years to be higher as a result of the accounting change. PricewaterhouseCoopers, which Freddie Mac hired in 2001 to replace Arthur Andersen LLP, recommended the accounting change. The accounting firm is completing a new audit of Freddie's financial statements, which should be finished in the second quarter. Freddie Mac said it will release unaudited results on Jan. 27."

Washington Post



January 23, 2003

Headline: Freddie Mac to Revise Earnings; Higher Numbers Expected After Derivative Transactions Are Reclassified

Byline: Jackie Spinner

**72. Fifth Third Bancorp**

09/21/2001 to 01/31/2003

Whistleblower: Firm

After completing its acquisition of Old Kent Financial, Fifth Third's internal and external auditors discover \$54 million in treasuries bonds and notes which are missing. Upon receiving notification from the firm, the regulator subjects Fifth Third's capital to heightened scrutiny, and the bank is prohibited from undertaking any further acquisitions until its accounting controls are improved. The impaired assets are mainly inherited from Old Kent's accounts, and the Old Kent executive who took a divisional executive position is replaced. Fifth Third settles for \$17 million.

**73. Finova Group**

07/15/1999 to 03/26/2000



Whistleblower: Analyst

Analyst David Sochol notices that Finova recorded a gain from a sale months before finalizing the transaction. Soon thereafter, Deloitte and Touche resign as the firm's auditor. Upon arriving Ernst and Young force the company to take \$80 million in charges, \$70 million for an account never before mentioned, and \$10 million in severance for the outgoing CEO. Company settles suit for \$40.3 million.

"Last week, Finova stunned Wall Street when it announced a two-week delay in its earnings report due to accounting issues raised by auditors. The company warned that 1998 results, reported and blessed by the auditors, might have to be restated, a major red flag for investors. Finova's stock, already way off its high, fell nearly 5 percent after the news came out Wednesday, and trading volume was the heaviest ever at 2.6 million shares. The stock, which was north of \$65 last summer, ended the week at \$47.63. Analyst David Sochol, a longtime Finova fan who first raised some accounting concerns in a February report, calls it the "strangest chapter in Finova's history." The aggressive move is what caught Sochol's eye in February. The analyst, who works for the investment banking firm Legg Mason Wood Walker in Baltimore, noticed that the company recorded a gain from the sale of commercial mortgage-backed securities for the fourth quarter yet didn't close the deal in the quarter. In fact, the transaction wasn't finalized until this month, he said. April."

Knight Ridder Tribune Business News: The Arizona Republic – Phoenix, Arizona

April 19, 1999

Headline: Accounting Issues Put Smudge on Phoenix-Based Lender Finova's Record

Byline: Dawn Gilbertson

**74. FirstEnergy Corporation**

04/24/2002 to 08/05/2003

Whistleblower: Firm

Soon after FirstEnergy's \$4.5 billion acquisition of GPU, the firm restates earnings, lowers guidance, and recognizes above-market values of certain leased generation facilities. FirstEnergy settles for \$89million, \$71.9 million covered by insurance.

**75. FirstEnergy Corporation**

04/24/2002 to 08/19/2003



Whistleblower: Self-regulatory organization

The North American Energy Reliability Council, a self-regulatory organization, informs federal energy regulators that the source of the largest electricity failure in North American history is problems at a FirstEnergy site. FirstEnergy becomes subject to a series of safeguards imposed by U.S. and Canadian authorities and settles with shareholders for their lack of proper controls and maintenance for \$89 million.

"The North American Energy Reliability Council [a self-regulatory organization] said the failure of five transmission lines in Ohio may have contributed to the blackout."

The Plain Dealer

August 17, 2003

Headline: POWER PROBE FOCUSES ON OHIO FirstEnergy transmission lines failed; alarm system wasn't working

Officials hunt for cause of the blackout

Byline: James Ewinger



**76. FirstPlus Financial Group, Inc.**

01/22/1998 to 10/01/1998



Whistleblower: Competitor

As the CEO's holding company goes bankrupt, FirstPlus talks with acquisition suitors fail. Details surface that FirstPlus understating prepayment rates and discount rates and underreserving for impaired loans and thereby inflating stock price. The CEO profited \$50 million from insider trading and placing shares into a family partnership and obtaining margin loans collateralized solely by the shares. FirstPlus settles for \$5 million.

“During the past 30 days interested bidders that have talked to FirstPlus include: Banc One Financial, Columbus, Ohio; G.E. Capital Corp., Stamford, Conn., and Providian, a credit card company. However, all three apparently have passed on making a bid at this time, investment banking sources said.”

Origination News

October 1, 1998

Headline: Apollo Buys Stake in FirstPlus

Byline: Paul Muolo

**77. Flowserve Corporation**

02/06/2001 to 09/27/2002

Whistleblower: Analyst – reclassified as short seller based on short interest

Baird analyst Michael Schneider downgrades Flowserve citing concerns that poor performance may lead to cash flow problems and debt covenant limits. The next week Flowserve calls a conference call and admits that it has cash problems as a result of poorly performing recent acquisitions, low product demand and failed restructuring efforts. The case begins in court as of June 2007.

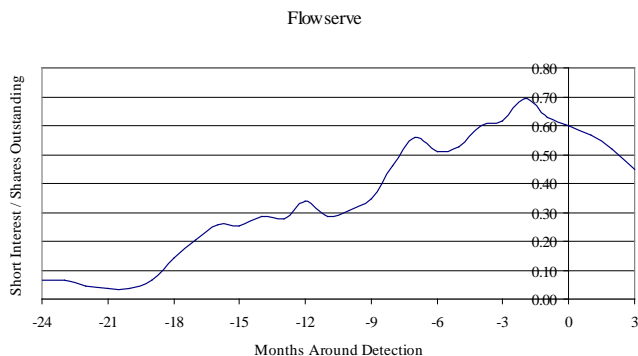
“Robert W. Baird & Co. analyst Michael Schneider, who downgraded Flowserve's shares to "underperform" from "outperform" on Friday, said the shortfall in earnings and free cash flow could put the company in jeopardy of violating debt covenants. "Cash flow was imperative to us, and Flowserve will clearly fall short," Schneider said in a research report.”

Reuters News

September 27, 2002 – 02:05 PM

Headline: UPDATE 2- Flowserve Cuts Profit View, Stock Sinks 43 pct.

Byline: Susan Kelly



**78. Fluor Corporation**

05/22/1996 to 02/18/1997

Whistleblower: Firm

Using the occasion of an unrelated insurance gain, Fluor discloses that it has cost overruns at two power plant projects and higher overhead costs in the power plant division as a whole. Suits allege that the failure to disclose cost concerns result from Fluor's executive bonus target guidelines. Fluor buys back stock, institutes cost restructuring and settles for \$18 million.

**79. Footstar**

02/16/2000 to 04/30/2004



Whistleblower: Firm (Employee)

As the Corporate Accounting Group takes over reporting responsibilities from the Shared Services Center, it discovers and informs the board and management that both the liquidation value of inventory and the benefits from acquisition of Just For Feet are overstated. Footstar restates earnings downward by \$55 million for a period of five and a half years. Senior VP finance, CEO and chairman resign. Footstar settles for \$14.3 million.

**10-K Filed 9/2004**

In August 2002, in an effort to improve internal controls, management shifted reporting responsibilities so that the Shared Services Center began reporting to the Company's Controller rather than to the Chief Information Officer. Late in October 2002, in a further effort to improve internal controls, management moved the preparation of monthly reconciliations of the merchandise accounts payable sub-systems to the general ledger from the Shared Services Center to the Corporate accounting group in New York. Subsequent to the transfer, the Corporate accounting group detected significant discrepancies in the basic reconciliation procedures that were followed in the Shared Services Center. These discrepancies were communicated to the Company's senior management team, the Audit Committee of the Board of Directors, the full Board of Directors, internal auditors from Deloitte & Touche LLP and independent auditors from KPMG LLP.

**80. Fore Systems, Inc.**

07/19/1996 to 04/01/1997



Whistleblower: Analyst

Analyst forecast that the Japanese market for Fore's products is in decline. In the next quarterly earnings, the firm acknowledges that its underperformance is due to flat revenue growth in the Japanese market. During the class period, executives of the firm conveyed that the market was performing strongly, and insiders sold \$26 million in stock. The SEC charges a former VP with insider trading. Fore settles for \$11.7 million

“Led by Marshall-based Fore Systems Inc., computer-network equipment makers saw their shares plunge yesterday amid concern about weak sales in Japan, analysts said. Fore Systems' shares fell 17 percent after Wessels Arnold & Henderson said in a report that the company's percentage of sales from Japan would decline.”

Pittsburgh Post-Gazette

March 8, 1997

Headline: Fore Trounced By Report on Sales

“Fore Systems Inc., hurt by a slowdown in the computer-networking industry, is the subject of a lawsuit that claims Fore officials failed to reveal their weakening business position even as they sold their own shares.”

The Wall Street Journal

July 14, 1997

Headline: Fore Holders Sue, Saying Firm Failed to Issue Warning

Byline: Chris Adams

**81. FPA Medical Management, Inc.**

02/27/1997 to 05/14/1998

Whistleblower: Firm

Facing a pending breach of debt contracts, FPA announces that its earnings would be a fraction of the prior years and that it would be taking a \$200 million charge for over-valuing acquisition benefits and under-reserving medical liabilities. The information comes to light after the Vice-Chairman takes over for the CEO. The firm settles for \$4.88 million.

**82. Fruit of the Loom**

07/24/1996 to 09/05/1997



Whistleblower: Equity holder

Investors raise concerns about company accounting following a reported 70% increase in earnings, payment of \$15 million bonus to top executives, yet surprising decline in T-shirt sales. FTL settles for \$23.2 million.

“Fruit of the Loom Inc. reported a 70% increase in net income for the first quarter, but some investors apparently were surprised by a sales decline for T-shirts and shares of the apparel maker fell 9%, or \$3.375 a share, to close at \$34.25 in composite trading on the New York Stock Exchange.”

The Wall Street Journal

April 24, 1997

Headline: FRUIT OF THE LOOM INC.: Quarterly Profit Soars 70%; Stock Price Declines by 9%

**83. Gateway, Inc.**  
04/14/2000 to 02/23/2001



Whistleblower: Analyst

An equity analyst cuts his rating on Gateway after surveying computer stores and reviewing the firm's balance sheets. Gateway denies the claims but then warns that holiday earnings will be \$500 million lower than Wall Street estimates, partly due to a \$200 million charge to write-down its investments. An SEC investigation, in which former officers are sued by the SEC for falsifying the accounting, forces the firm to restate its 1999, 2000, and 2001 results. Among other offenses, Gateway is investigated for booking barter revenue with AOL. Gateway settles the class-action suit for \$10.25 million.

“Stocks of personal computer makers fell on Monday after Wit Soundview cut its ratings on Dell Computer Corp., Gateway Inc. and Apple Computer Inc. and on chip maker Intel Corp. Analyst Mark Specker said the downgrades were based on weak demand uncovered in calls to dozens of computer stores across the country.”

Reuters News

November 20, 2000 – 11:48 AM

Headline: Stocks of Personal Computer Makers Fall on Downgrades

**84. Gemstar**  
08/11/1999 to 04/01/2002

Whistleblower: Firm

Gemstar writes off \$5 billion as a result of new accounting rules regarding the amortization of intangible assets. Later, in a SEC filing, Gemstar discloses that \$20.8 million of its revenues came from a barter exchange and another \$58.9 million from sales that could only be realized after a successful ruling in an ongoing licensing lawsuit. Gemstar settles for \$67.5 million, and replaces CEO, COO and president with ones backed by News Corp, which owns 42% of Gemstar. Criminal charges are brought against four executives. Shareholder suit settles for \$67.5 million, SEC suits settled with company for \$10 million, officers for \$23.4 million and auditors for \$25 million.

**85. Global Crossing, Ltd.**  
01/02/2001 to 10/04/2001

Whistleblower: Analyst

As Global Crossing continues to make earnings targets but warns that future earnings may be impacted by the economy downturn, analysts following the firm discover irregularities in the firm's financials. Global Crossing is buying assets from its clients to fund their continued business. Additionally, \$1.7 billion of the firm's \$2.4 billion in cash is a result of drawing down on a bank line of credit. After Global Crossing has filed for bankruptcy, an internal letter from a finance executive outlines other accounting schemes, particularly bartered long-term contract revenue, which the firm used to boost earnings. The firm settles for \$245 million and auditors settle with SEC for \$100 million.

“The future of Global Crossing Ltd. (LX) looks shaky to some stock analysts who follow the company, given the company's disclosures Thursday regarding its cash and debt positions and disappointing sales. During a conference call Thursday to discuss third-quarter earnings guidance, planned asset sales and a proposed merger with Asia Global Crossing (AX), the company said \$1.7 billion of the company's \$2.4 billion in cash came from a recently drawn bank revolver facility. Analysts said they are concerned about the amount of cash the company has been spending, the effect of the slowing economy, and the possibility that the company could find itself in default on loan covenants attached to older debts.”

Dow Jones Newswires

October 4, 2001 – 04:38 PM

Headline: Analysts See Going-Concern Issues for Global Crossing

**86. Global Crossing, Ltd.**  
12/09/2003 to 04/29/2004



Whistleblower: Auditor

After getting sufficient financing such that it can emerge from Chapter 11, Global Crossings' auditor Grant Thornton resigns citing a lack of controls. A few weeks later, Global Crossing announces that its past financials understate liabilities by \$50-80 million due to internal control weaknesses.

“Global Crossing Ltd. asked for the resignation of its auditor, Grant Thornton LLP, and received it Friday, the Global Crossing said. The Bermuda-incorporated telecommunications company decided to hire Ernst & Young LLP instead, it said in a filing with the Securities and Exchange Commission.”

Associated Press Newswires

April 2, 2004 – 05:02 PM

Headline: Global Crossing Ltd. Hires New Auditor

“Telecommunications company Global Crossing Ltd. warned on Tuesday it faced a possible delay of much-needed funding after discovering an accounting problem, sending its shares down more than 23 percent. Global Crossing said it would restate its 2003 earnings, review its 2002 results and delay reports for this year. The Bermuda-based firm, which recently emerged from bankruptcy protection, said it understated liabilities for access charges - fees paid to other phone companies for connecting calls - in its 2003 financial statements by \$50 million to \$80 million.”

Reuters News

April 27, 2004

Headline: UPDATE 3 – Global Crossing Shares Fall on Accounting Problem

Byline: Justine Hyde and Ben Klayman

### **87. Grand Casinos**

12/19/1995 to 07/22/1996

Whistleblower: Firm

When Grand Casino’s newly acquired subsidiary Stratosphere reports less-than-expected earnings, Stratosphere is forced to acknowledge that it has run out of cash and is taking a debt infusion from parent Grand Casinos. By doing so, Stratosphere confirms suspicions that Grand Casino’s assessments of the completion and cash flow of the new casino were optimistic. Stratosphere eventually files for Chapter 11. Grand Casinos settles for \$9 million.

### **88. GTECH Holdings Corp.**

07/13/1998 to 08/29/2000



Whistleblower: Employee

An employee of GTEch, a firm contracted to provide terminals for the UK Lottery, informs the Lottery that a computer glitch resulted in errors in tens of thousands of prizes over the years 1994-1998 and that the firm had known about it since corrections were made in 1998. The revelation causes GTEch to lose the UK contract. Shareholder suits are settled for \$10 million.

“Directors of GTEch, computer terminal supplier to lottery operator Camelot, were this week questioned by the National Lottery Commission over allegations that the company covered up a technical fault that resulted in errors in tens of thousands of prizes. GTEch has admitted it discovered the problem in 1998. But Camelot says it only heard about it last month after a former GTEch employee contacted the commission.”

Financial Times

June 23, 2000

Headline: Gtech Directors in Lottery Probe

Byline: Scheherazade Daneshkhu and Susanna Voyle

### **89. Halliburton Company**

07/22/1999 to 05/28/2002



Whistleblower: Newspaper

After Halliburton dismisses failing auditor Arthur Andersen, the New York Times publishes an article outlining the firm’s aggressive accounting, particularly those instituted under Vice President Dick Cheney’s watch. A week later, Halliburton acknowledges that the SEC has begun an informal investigation into its practice of early revenue recognition. The SEC fines Halliburton \$7.5 million and brings civil suits against two executives.

“During Vice President Dick Cheney’s tenure as its chief executive, the Halliburton Corporation altered its accounting policies so it could report as revenue more than \$100 million in disputed costs on big construction projects, public filings by the company show. Halliburton did not disclose the change to investors for over a year. At the time of the change -- which was approved by Arthur Andersen, the company’s auditor at the time -- Halliburton was suffering big losses on some of its long-term contracts, according to the filings. Its stock had slumped because of a recession in the oil industry. Two former executives of Dresser Industries, which merged with Halliburton in 1998, said that they concluded after the merger that Halliburton had instituted aggressive accounting practices to obscure its losses.”

The New York Times

May 22, 2002 – Page 1, Column 5

Headline: Under Cheney, Halliburton Altered Policy on Accounting

Byline: Alex Berenson and Lowell Bergman

### **90. Hamilton Bancorp, Inc.**

04/21/1998 to 12/22/2000



Whistleblower: Industry regulator

Bank regulators issue a cease-and-desist order requiring that Hamilton must increase reserves, alter accounting practices and maintain a higher capital ratio to account for its loan exposure in Latin America. As a result, the firm takes a charge and restates earnings for three years. Disputes regarding the regulator prescription and financial distress lead to the discovery of additional improprieties and to the dissolution of the firm. The class action suits combine and settle for \$8.5 million.

“Hamilton Bancorp Inc.'s (HABK) Hamilton Bank N.A. settled an administrative proceeding with the Office of the Comptroller of the Currency, agreeing to maintain higher capital ratios than those normally required of banks rated as well capitalized. In a press release Tuesday, Hamilton said the OCC's temporary cease and desist order is now terminated. The bank also agreed to review and revise, where appropriate, various policies and procedures and certain risk management processes.”

Dow Jones News Service

October 3, 2000 – 04:27 PM

Headline: Hamilton Bancorp In Agreement With OCC

**91. Hamilton Bancorp, Inc.**

12/22/2000 to 01/11/2002



Whistleblower: SEC

Soon after Hamilton engages in a dispute with the bank regulator over its loan loss reserves for Latin America exposures, the SEC begins an investigation into the firms accounting practice. The SEC investigation reveals that Hamilton has engaged in practices of money laundering and hiding of liabilities in financing entities and triangle relationship arrangements in order to keep the stock price inflated for management to extract bonuses and stock options. Soon after Hamilton's auditor issues a 'going concern' report and the SEC investigation progresses, the firm liquidates. Hamilton settles for \$8.5 million.

“The Securities and Exchange Commission is reviewing accounting issues at **Hamilton Bancorp Inc.** (HABK) similar to those scrutinized earlier by the Office of the Comptroller of the Currency, Hamilton Executive Vice President Carlos Bernace said. Bernace, who also serves as President of Hamilton Bank NA, told Federal Filings Business News Wednesday that the SEC is reviewing the Miami-based bank holding company's third quarter financial statement and making general comments on the report. Among the things the agency is looking at are Hamilton's allocated transfer risk reserves, Bernace said, which are special reserves required by federal banking regulators to be taken against risks presented in certain international assets.”

Federal Filings Newswires

November 15, 2000 – 05:22 PM

Headline: SEC Reviewing Accounting In Hamilton Bancorp's 3Q 10-Q

**92. Hanover Compressor Company**

11/08/2000 to 01/28/2002

Whistleblower: Short sellers

Goldman Saks cuts the rating of Hanover, citing a growing negative outlook by short sellers. One item of particular interest is the use of off-balance sheet partnerships in the era of Enron fallout. The next week, the Wall Street Journal "Heard on the Street" column further reveals that Hanover had booked non-existing revenue in a Nigerian partnership. Hanover paid off its former partners not to reveal certain failures of the project. The company settles for \$60 million. SEC takes action against the offers and auditors resulting in \$22 million in additional fines.

“Goldman Sachs said on Friday that it cut its rating of Hanover Compressor Co... Analyst Terry Darling... wrote in a report, "We do not see Hanover Compressor as the potential 'house of cards' some short sellers do, but believe the company needs to reduce capex (capital expenditures), tighten working capital, generate free cash, and deliver the balance sheet.”

Reuters News

January 18, 2002 – 09:06 AM

Headline: RESEARCH ALERT- Goldman Cuts Hanover Compressor Rating

“Hanover Compressor Co. (HC), whose shares have been halted for trading since about 9:30 a.m. EST, expects to issue a news release Friday afternoon, a spokeswoman said. Hanover's off-balance-sheet partnership, Hampton Roads Shipping LLC, was the topic of a column in The Wall Street Journal Friday.”

Dow Jones News Service

January 25, 2002 – 01:44 PM

“Off-balance-sheet partnerships -- those sometimes debt-laden entities through which companies can do business while keeping financial obligations off their books -- were once pretty much ignored by investors. But after the collapse of energy-

trading giant Enron, times have changed. Hanover Compressor's partnership dissolved last February, though it doesn't appear that most shareholders learned of its existence until last April, in a footnote in the company's annual report. Some investors' belated concern is over whether Hanover's accounting treatment of the partnership inflated the company's revenue and earnings figures during periods when Hanover executives sold millions of shares and the company raised \$170 million in convertible debt."

The Wall Street Journal  
January 25, 2002  
Byline: Aaron Elstein

### 93. **HealthSouth Corporation**

04/24/1997 to 03/18/2003



Whistleblower: Employee

HealthSouth's CFO confessed to the FBI and testified against the CEO, that HealthSouth deliberately hid past losses and forged financial statements by significantly inflating revenues to meet street expectation, and by grossly overestimating cost of new governmental rules. As a result, the inflated stock price generated more than \$2.7 billion in personal profit. HealthSouth settles for \$445 million. The company settles SEC action for \$100 million and officers settle with Sec for \$81 million.

"Eight days ago, the former chief financial officer of HealthSouth Corp. approached federal prosecutors in Alabama and told them something shocking: Senior executives at the health-care giant had been falsifying financial results for more than five years. HealthSouth and some of its officials were already under investigation by three federal agencies for possible insider trading. But Weston L. Smith's statements to the U.S. attorney in Birmingham went far beyond that. He said HealthSouth's founder, chairman and chief executive, Richard Scrushy, met regularly with him and another executive and told them to inflate earnings to meet Wall Street estimates. The get-togethers were known as "family" meetings, Mr. Smith said in a plea agreement, and bogus accounting entries were known as "dirt" to fill a "gap" or a "hole" in the numbers. Yesterday, the Securities and Exchange Commission accused HealthSouth and Mr. Scrushy of "massive accounting fraud," alleging in a civil case that they had overstated earnings by a total of \$1.4 billion since 1999. Mr. Smith pleaded guilty to four federal criminal charges and was released on bond. He was CFO until last August, when he took a different corporate role."

The Wall Street Journal  
March 20, 2003

Headline: HealthSouth Faked Profits, SEC Charges --- A \$1.4 Billion Overstatement Cited As CEO Is Accused of Ordering 'Massive Accounting Fraud'  
Byline: Deborah Solomon, Ann Carns and Chad Terhune

### 94. **Hollinger International, Inc.**

08/13/1999 to 03/31/2003



Whistleblower: Equity holder

Equity stakeholder Tweedy Brown Co. questions Hollinger's CEO Conrad Black about the use of his privately-help firms in transactions involving Hollinger. The related parties are funnels for executives at Hollinger to siphon payments and contracts at least valued at \$80 million which should have flowed to the firm. Hollinger executives are charged in civil suits by the SEC and face criminal investigation by the Chicago U.S. Attorney General's office. Hollinger settles shareholder suit for \$30 million and officers settle SEC action for \$29 million.

"Conrad Black's Hollinger Inc. has suspended redemptions of its preferred shares because it doesn't have the money to pay shareholders who want to cash in their securities. ... The suspension came only two days before the annual meeting in New York of Hollinger International, which has come under pressure from institutional shareholders that have complained about the size of management fees paid to its officers, including Lord Black. Last year, Hollinger International paid \$22.6-million (U.S.) and \$3.6-million (Canadian) in management fees to Ravelston Corp. Ltd., Lord Black's private company that includes several Hollinger executives as its "affiliates." Investors are expected to express heated criticism of the payments at the meeting and to demand changes. ... Chris Browne, a partner at New York investment firm Tweedy Browne Co., which controls 18 per cent of Hollinger International, said he wants specific action on the fee issue from the company -- and not just a reduction in the payments."

The Globe and Mail  
May 21, 2003

Headline: Hollinger Lacks Money to Redeem Share Issue Says Retractions Would Impair Liquidity  
Byline: Richard Blackwell



**95. Homestore.com, Inc.**

07/20/2000 to 12/21/2001

Whistleblower: Client

Throughout 2000 and 2001, Homestore.com engaged in round-trip advertising revenue booking with AOL and discussed a possible merger. When AOL turned down the merger opportunity and ceased round trip advertising, Homestore.com's Board conducts an inquiry, forcing the firm to announce that it will restate revenue. The internal investigation reveals problems with regards to non-advertising revenue as well. The DOJ and SEC file charges against several former executives. Homestore.com settles the class-action suit for \$93 million, officers settle SEC complaint for \$23 million and auditors settle for \$17.5 million.

"The SEC has been investigating Homestore since January, when Homestore said it had likely overstated its online-advertising revenue by booking revenue for transactions that should have been considered barter. In October, however, Homestore filed a demand for arbitration against AOL for failing to meet its contractual obligations to build 21 specific promotions for Homestore and to deliver more than 600 million Homestore impressions to AOL users."

The Wall Street Journal

August 5, 2002

Headline: Leading the News: AOL Links to Homestore Draw Fire --- Suit Against Web Realty Claims the Internet Giant Was Party to Complex Deals

Byline: Julia Angwin

**96. Honeywell International, Inc.**

12/20/1999 to 06/19/2000

Whistleblower: Firm

Honeywell lowers earnings expectations, citing the up tick in oil prices on input expense and acknowledging revenue shortfalls and shortages in parts. The CEO previously claimed that the difficulties of integrating recently-acquired Allied Signal were passed, but revenue shortfalls still plagued the division. Honeywell settles for \$100 million.

**97. Horizon/CMS Healthcare**

07/06/1995 to 03/01/1996



Whistleblower: Industry regulator

A regulatory investigation of Horizon is triggered when the firm changes its medical billing submittal procedures. In addition to highlighting problems in Medicare billing, the investigation brings to light Horizon's troubled operations and financial situation. Prior to release of news about investigation, insiders sell shares worth \$40 million. Horizon settles for \$20 million.

"Horizon/CMS Healthcare Corp., a major operator of nursing homes and rehabilitation hospitals, revealed Friday it is being quizzed by federal investigators looking into Medicare fraud. The Albuquerque-based company admitted that it appears some of its billings to the government didn't follow Medicare rules. But it maintained the overbillings were a mistake and "do not represent a regular pattern or practice." The investigation disclosed Friday is being conducted by the Justice Department and the inspector general's office of the Department of Health and Human Services. These two agencies have, for several years, pursued a wide-ranging investigation of fraudulent billings in Medicare, the federal health insurance program for the elderly and disabled. The General Accounting Office, an investigative unit of Congress, has estimated that Medicare fraud totals \$17 billion, or 10 percent of Medicare spending."

The Associated Press

March 15, 1996

Headline: Operator of Nursing Homes, Hospitals Under Federal Medicare Investigation

Byline: Steve Sakson

**98. Household International, Inc.**

10/23/1997 to 08/14/2002



Whistleblower: Auditor

After taking over audit responsibility from failing Arthur Andersen, KPMG discovers accounting improprieties, mainly in understating costs. Household restates earnings for the prior 3 years, taking nearly \$400 million off its balance sheet, triggering borrower covenants and forcing the firm to dilute its equity base to raise cash. The SEC institutes an investigation.

"Household International Inc. on Wednesday said it revised its net income since 1994 downward by a total of \$386 million to properly account for certain costs in its credit card business, pushing the stock of the consumer finance company lower. The Prospect Heights, Illinois-based company said the revision follows the recommendation of its new auditor, KPMG LLP, which replaced Andersen in March, and involves its "affinity" Visa and MasterCard agreements as well as a credit card marketing agreement with a firm it did not identify. Affinity cards have logos of groups or organizations printed on them. An audit by KPMG determined that the company should have been expensing certain costs over several months to a year



rather than amortizing them over several years, the company said in a conference call. It said the way it accounted for these costs was based on guidance it received from collapsed accounting firm Andersen in 1993.”

Reuters News

August 14, 2002 – 12:21 PM

Headline: Household Restating Earning Since 1994 Down

**99. ICG Communications, Inc.**

12/20/1999 to 09/18/2000



Whistleblower: Employee

ICG replaces the CEO after poor quarterly earnings. After only being in the position for two months, the new CEO goes public with a new business plan. In the process, the CEO reveals that revenue expectations should be halved due to both product and service concerns and that the company should cut capital expenditure severely to preserve cash. The CEO resigns in the process of whistleblowing. The company eventually goes into bankruptcy.

“ICG Communications, the troubled US broadband network provider, said on Tuesday that its second chief executive had resigned in less than two months. It follows a warning by the company that it expects reduced revenues for the next two years. Carl Vogel, who was appointed as ICG's chief executive in the wake of Shelby Bryan's resignation on August 22, offered no reasons for why he was stepping down after only one month in the post. The company said on Monday that it would reduce spending for the rest of 2000 and 2001 and warned of lower revenues, reduced earnings and slower expansion.”

Financial Times (FT.com)

September 19, 2000

Headline: ICG Loses CEO After Warning

**100. IKON Office Solutions**

01/24/1996 to 08/11/1998

Whistleblower: Firm

Ikon announces that its controls are inadequate, resulting in inaccurate reporting of defaulted leases and accounts receivable. The disclosure is accompanied by a costs charge associated with its aggressive acquisition policy. The firm announces plans to reorganize units to improve controls. Ikon settles for \$111 million.

**101. Infonet Services Corporation**

12/16/1999 to 08/07/2001

Whistleblower: Firm

Infonet sought "strategic alternatives" while its largest institutional investor, Dutch KPN Telecom, tried to unload its 18% stake in the firm. A lack of offers forces the firm to abandon the plan to sell itself and disclose that it concealed problems in its AUCS business prior to its IPO. Infonet settles for \$18 million.

**102. InfoSpace, Inc.**

01/26/2000 to 01/30/2001



Whistleblower: Analyst

Following earlier positive assessments of company prospects, analyst Henry Blodget downgrades Infospace. Blodget's report precipitates a collapse in share price. During the class period, the company boosted revenues through mechanisms such as "lazy Susan" financing to allow insiders to sell tens of millions of dollars worth of shares at inflated prices. InfoSpace settles for \$34 million; officers settle SEC actions for \$65 million and auditors for \$4 million.

“On Dec. 11, 2000, InfoSpace was dealt a blow by the man who once had boosted the company's stock by being its most influential cheerleader. Famed Internet stock analyst Henry Blodget at the brokerage house Merrill Lynch had been receiving hate e-mail for months from stockbrokers who had followed his strong recommendation to buy InfoSpace stock. The brokers had been getting hit with complaints from angry clients who had lost money on InfoSpace. Why was he backing InfoSpace so strongly when company insiders were selling so heavily? they asked by e-mail. Merrill Lynch had made millions as a consultant in the Go2Net merger. But Blodget had lost confidence in InfoSpace, records show. He asked a colleague to remove the stock from the brokerage house's most-favored-stocks list. "Can we please reset this stupid price target and rip this piece of junk off whatever list it's on?" he wrote Oct. 20. "If you have to downgrade it, downgrade it." It took seven weeks, but on Dec. 11, Merrill Lynch downgraded InfoSpace to "accumulate." The decision pummeled the stock, which fell 16 percent that day.”

The Seattle Times

2005

Headline: Cashing Out

**103. Interstate Bakeries Corp.**

04/02/2002 to 04/08/2003

Whistleblower: Firm

Interstate Bakery's new management announces that the firm would substantially miss its projected earnings, a fact that the company has known for several months. The former CEO and present CFO, among others, sell \$16 million of stock during the period in question. The announcement of the earnings shortfall is accompanied by the new CEO's stated goals to hire consultants and overhaul the firm. The firm settles for \$18 million the day before bankruptcy proceedings.

**104. J.D. Edwards & Company**

01/22/1998 to 12/03/1998

Whistleblower: Firm

When the firm hires a new CEO, he reveals that prior statements by the firm proved incorrect. Prior management had issued optimistic statements about two new product lines and the revenue from direct sales. The new CEO reveals that these products had performed poorly. During the interim period, insiders sold \$151.5 million of stocks. J.D. Edwards settles for \$15 million.

**105. JDN Realty**

02/15/1997 to 02/14/2000

Whistleblower: Firm (Employee)

As part of a regular project review process, an employee discovered that two vice presidents, in deals signed off by the CEO, had been redirecting as much as \$5 million undisclosed compensation to themselves. The employee blows the whistle to the board which instigates an inquiry. Internal investigations revealed further problems including improprieties in contracts with major clients WalMart and Lowes. JDN settled for \$43 million and was eventually sold to competitors.

UNDISCLOSED COMPENSATION AND RELATED PARTY TRANSACTIONS

Beginning in December 1994, JDN Realty's then chief executive officer, who also served as the president of JDN Development (the "chief executive officer"), a consultant who joined JDN Development as an officer in June 1996 and later became senior vice president (the "senior vice president"), and a JDN Development vice president (the "vice president") engaged in a series of actions that concealed from JDN Realty's officers, board of directors, accounting department, and auditors certain compensation and payments to the senior vice president and the vice president. This conduct continued until its discovery by employees of JDN Realty in late 1999 as part of JDN Realty's project review process. The chief executive officer, the senior vice president, and the vice president resigned from their respective offices on February 14, 2000, at the request of JDN Realty and its board of directors. The chief executive officer resigned from all remaining positions with JDN Realty and JDN Development as of April 13, 2000.

ACCOUNTING AND AUDITING ENFORCEMENT

Release No. 1507 / February 20, 2002

ADMINISTRATIVE PROCEEDING

File No. 3-10704

"Kerley's suit stated he was unaware of the "secret diversion of corporate assets" and was unwittingly induced to make misstatements in JDN's public financial reports. When he began to suspect irregularities in the real estate transactions, Kerley said he "blew the whistle" and brought matters to the attention of the board of directors. He is suing the McCullough Sherrill lawyers for legal malpractice, breach of contract, breach of fiduciary duty, negligent misrepresentation, tortious interference with business relations and conspiracy. Kerley v. McCullough Sherrill, No. 02VS028870-E (Fult. St. filed Feb. 18, 2002)."

Fulton County Daily Report (Atlanta)

July 10, 2002

Headline: JDN Claims Its Ex-Lawyers Set up Deal to Divert Money

Byline: Trisha Renaud

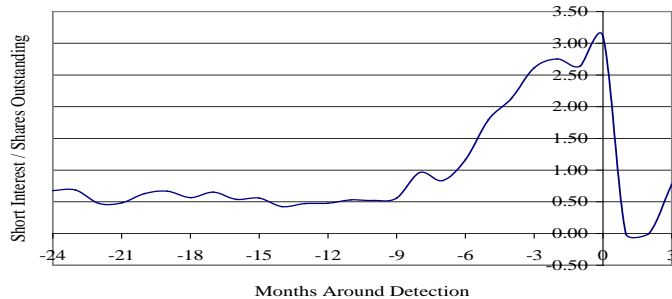
**106. Just For Feet**

05/05/1997 to 11/01/1999

Whistleblower: Firm – reclassified to shortseller based on short interest.

Just For Feet, in its quarterly earnings announcements, reveals that it is carrying excess inventory in its specialty stores. Subsequent investigations show that executives created fake billings and receivables. The son of CEO and two other executives of Just For Feet, as well as a variety of executives at suppliers eventually are criminally convicted and go to jail. Just For Feet's officers and auditor settle a class action lawsuit for \$31.9 million and SEC actions for auditor, Deloitte and Touche, was censured by SEC and settles for \$24.9 million.

### JUST FOR FEET



#### 107. KeySpan Corporation

04/26/2000 to 07/17/2001



Whistleblower: Firm

KeySpan does not immediately reveal the accounting irregularities uncovered in a newly acquired subsidiary Roy Kay Cos. The irregularities result in the firing of the subsidiary management triggering the announcement of the charge against KeySpan earnings. Insiders sell \$29 million of stock in the quarter prior to the disclosure. KeySpan settles for \$13.8 million.

“KeySpan Corp. (KSE) will take a charge in its Energy Services unit and also cut its 2001 earnings estimates because of lower gas commodity prices and lower New York City electricity prices. KeySpan will take a second quarter charge of \$30 million, or 22 cents a share, as a result of the operations of the Roy Kay Cos. The charge reflects the unanticipated costs to complete work on certain construction projects, as well as the impact of inaccuracies on the books of these companies, relating to their overall financial and operational performance. Because of these findings, KeySpan has terminated the employment of the former owners of the Roy Kay companies and installed new management in their place. The parties are engaged in litigation relating to the termination of the former owners, as well as other matters relating to the acquisition of the Roy Kay companies. KeySpan intends to pursue all available legal remedies to recover the damages it has incurred as a result of the activity of the former owners.”

Dow Jones News Service

July 17, 2001

Headline: KeySpan Announces Special Chg, Revises 2001 Net Views

#### 108. Kinder Morgan, Inc.: KN Energy, Inc.

10/30/1997 to 06/21/1999

Whistleblower: Competitor

When cash-troubled KN Energy's acquisition by a California utility falls through, KN Energy arranges to merge itself with cash-rich Kinder Morgan. Former KN shareholders sue the firm for inflating the firm's price (and thereby discouraging suitors from buying the firm) by misrepresenting risk in energy contracts and by passing off extraordinary income as sustainable earnings. Kinder settles for \$5.2 million.

“Sempra Energy Monday announced it was scrapping its proposed acquisition of KN Energy Inc., saying the combined company wouldn't have been able to meet business objectives as originally anticipated. Cancellation of the deal came as KN Energy warned it will post a loss in the second-quarter and issued a bleak forecast for the full year. Herzog Heine Geduld analyst Alvin D. Silber said that probably was a key factor behind the breakup. “Sempra was not comfortable with the (earnings) outlook they discovered after they announced the merger,” Silber said.”

Dow Jones Business News

June 21, 1999

Headline: Sempra Energy Calls Off \$1.9 Billion Deal As KN Energy Warns of Loss

#### 109. King Pharmaceuticals, Inc.

02/16/1999 to 03/11/2003



Whistleblower: SEC

A SEC investigation reveals that King has not been offering the "best price", as it claims it has been, to Medicaid agencies. Furthermore, the company has been recording revenue for products subject to "pharmaceutical rebate" programs. An internal review ensues and reveals that King has underestimated amounts due under Medicare and other governmental pricing programs by about \$46.5 million. King settles with the U.S. Department of Health and Human Services for \$124.1 million. The class action suits settle for \$38.5 million.

“King Pharmaceuticals Inc. (KG.N) on Tuesday said U.S. securities regulators are investigating its pricing and rebate practices and have subpoenaed various documents. The news, the latest in a series of probes into pharmaceutical sales practices, sent King's stock down more than 23 percent, making it one of the top percentage losers on the New York Stock Exchange.”

Reuters News

March 11, 2003

Headline: UPDATE 4 – SEC Probing King Pharma Pricing, Rebate Practices

Byline: Jed Seltzer

#### 110. LaBranche & Co., Inc.

08/19/1999 to 10/15/2003

Whistleblower: Client – reclassified as shortseller based on short interest

Institutional investors complain to NYSE hotlines about specialist firms such as LaBranche. Ensuing NYSE and SEC investigations reveal that LaBranche brokers have been trading on their own accounts with knowledge of what clients are doing. NYSE fines LaBranche \$63.5 million. The class-action suit is not yet settled.

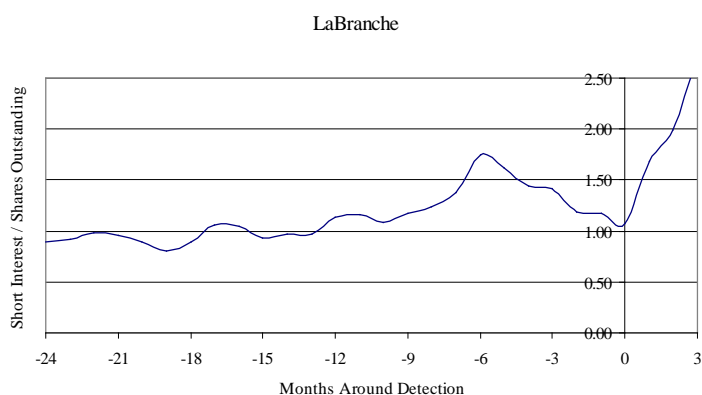
“THE NEW YORK STOCK Exchange investigation into floor-trading practices among the elite units known as specialist firms involves at least five of the seven NYSE specialist companies there, according to people familiar with the matter. Yesterday morning, the Big Board issued a statement acknowledging that "as part of its ongoing commitment to surveilling the marketplace," the exchange "is conducting a review of trading practices at several specialist firms." Earlier this week, FleetBoston Financial Corp.'s Fleet Specialist unit suspended its trader who oversees the buying and selling of General Electric Co. shares. The suspension stemmed from an internal inquiry prompted by the NYSE's broader investigation. A Fleet spokesman said the suspension, which occurred Monday, was "an internal matter." The Big Board's investigation involves, among other things, allegations, some of them made by institutional investors, of "front-running," or giving inferior stock-trade-execution quality to certain customers, according to people familiar with the inquiry.”

The Wall Street Journal

April 18, 2003

Headline: NYSE Probe Reaches 5 of 7 Specialist Firms --- ‘Front-Running’ Investigation Involves Biggest Companies

Byline: Kate Kelly and Susanne Craig



#### 111. Laidlaw Environmental Services, Inc.

10/15/1997 to 03/13/2000

Whistleblower: Firm

The firm forces out its chairman and instigates an internal investigation into accounting practices. An SEC investigation then ensues and discovers that the former CFO set target earnings and adjusted the accounts to meet that target, inflating the earnings by more than 100%, in an effort to justify a series of acquisitions. Laidlaw Environmental Services settles shareholder suit for \$36 million, officers settle SEC complaint for \$200 million and auditors/investment bankers settle SEC complaint for \$84 million.

**112. Long Island Lighting Co.**

05/29/1998 to 06/01/1998



Whistleblower: Newspaper

The Daily Energy Briefing brings to light that LILCO's board paid, but did not disclose to shareholders, \$67 million to its directors and officers, before completing the merger with MarketSpan. LILCO settles for \$48.5 million.

"In its final report to the Securities and Exchange Commission last week, the Long Island Lighting Co.'s board of directors said it awarded LILCO Chair William Catacosinos with more than \$5.8 million in total compensation during the company's final 14 months. The figure, "more than nine times his 1996 compensation of \$603,160," was made in expectation of the successful conclusion of the partial takeover of LILCO's assets by the Long Island Power Authority and its simultaneous merger with KeySpan Energy to create MarketSpan Corp. Other top LILCO officers involved in the deals received smaller bonuses, which in at least one case more than doubled their salaries, according to the filing. MarketSpan Senior VP Joseph McDonnell said that about \$1 million of Catacosinos's compensation represented incentives that were either carried forward from previous years or would have been owed in the future had LILCO continued to exist. Another \$2.1 million was a one-time payment "triggered by the change in control of the company."

Daily Energy Briefing

June 1, 1998

Headline: Electricity Industry – Lilco: Chair Earns \$5.8M In Total Compensation

**113. Lucent Technologies, Inc.: Common Stock and Debt Securities**

10/26/1999 to 12/21/2000

Whistleblower: Firm

The board brings in new management to address the earnings deterioration that has removed three-quarters of the value of Lucent stock. The new CEO announces that an adjustment for a revenue recognition problem will lower sales by \$125 million. Information emerges that Lucent's slowness to adapt to technological changes encouraged the firm to undertake improper accounting via channel stuffing, a failure to charge returns against sales, and the improper carrying of bad debt. After numerous revenue adjustments and asset write-offs, Lucent settles with shareholders for \$631 million and with SEC for \$25 million.

**114. McLeodUSA, Inc.**

01/30/2001 to 12/03/2001

Whistleblower: Firm

Needing financing to stay afloat, McLeod arranges a restructuring with buyout specialist Forstmann Little in which Forstmann retains 45% of the firm equity. McLeod had not previously revealed the extent to the costs overruns or its inability to complete the development of its primary product, a telecommunication network, due to the lack of funds and high debt servicing. McLeod files for prepackaged bankruptcy in 2002. The firm settles for \$30 million.

**115. MasTec, Inc.**

05/13/2003 to 04/12/2004



Whistleblower: Auditor

As the controlling Mas family tries to sell of some of its holdings in an offering, the auditor forces MasTec to delay quarterly reports due to control weaknesses. When the firm does file, it announces a \$52 million loss with write downs of impaired assets and receivables, un-expensed costs, and overly aggressive revenue recognition. Losses for 2002 are restated. Two CFOs resign as well as a number of outside board members. Settles shareholder suit for \$10 million.

"MasTec, a Coral Gables firm specializing in constructing infrastructure networks for telecommunications companies, said it would ask to delay the filing of its 10-K, or annual report, with the Securities and Exchange Commission." "We're just not through with the audit," said Marc Lewis, a company spokesman."

The Miami Herald

March 11, 2004

Headline: Coral Gables, Fla.-Based MasTec Seeks to Delay Filing of Annual Report

Byline: Gregg Fields

**116. Mattel, Inc.**

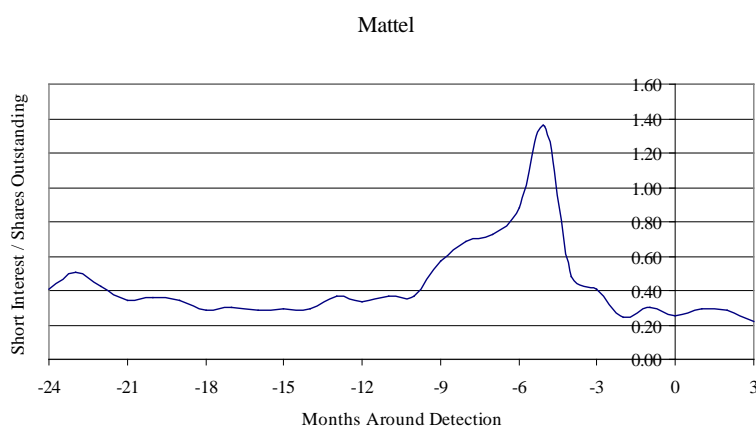
02/02/1999 to 10/01/1999

Whistleblower: Newspaper – reclassified to shortseller based on short interest

BusinessWeek reports that Mattel's CEO conveyed a negative outlook during an annual trade association meeting. The magazine infers that the firm's forthcoming Christmas revenues, and, in particular, sales by the newly acquired Learning Company might be at risk. A few days later, Mattel warns on third quarter earnings. Mattel settles for \$120 million.

"Jill E. Barad is known as one of the great performers on Wall Street. Rare is the presentation before analysts and investors where the chief executive of Mattel Inc. doesn't dance or sway on stage, usually dressed in a colorful Chanel or Escada suit, as she shows off Mattel's latest Barbie or Winnie-the-Pooh commercial. But when a more subdued Barad appeared before investors and analysts at the Phoenician resort in Scottsdale, Ariz., on Aug. 6 to unveil Mattel's new toys, she failed to work her usual magic. "People left shaking their heads, saying these numbers don't link with reality," says one analyst in attendance."

Business Week  
September 26, 1999



**117. McKesson HBOC**  
07/28/1998 to 04/28/1999



Whistleblower: Auditor

Auditors Deloitte & Touche reveal that much of revenue booked by HBOC, the software maker recently acquired by McKesson, are based on future projected sales that may never occur. After the firm begins to realize and admit the magnitude of the revenue recognition problem, investigations by regulators and federal criminal authorities discover that McKesson had been warned of revenue concerns by the auditor prior to the merger. Executives from former HBOC are indicted for criminal fraud. Executives from McKesson are fired, and McKesson settles class suits for \$960 million.

"Investors were misled when HBOC and, later, McKesson HBOC reported financial results based on the bogus accounting, the SEC said. The alleged scheme finally came to light when company auditors reported to McKesson HBOC's board of directors that something was seriously wrong with the books. An outside accounting firm was brought in to investigate, and McKesson HBOC announced on April 28, 1999, that it would be forced to restate several years' worth of earnings reports."

The San Francisco Chronicle

September 29, 2000

Headline: Ex-Software Chiefs Charged With Fraud / \$9 billion scandal gutted McKesson stock

Byline: David Lazarus, Chronicle Staff Writer

**118. Micro Warehouse Inc.**  
03/26/1995 to 09/27/1996

Whistleblower: Firm

While upgrading the automation of its accounting system, accounting staff at Micro Warehouse uncover manual accounting entries which inflate earnings by adjusting receivables for defective inventory, stock rotation, and price protection, thus requiring restatements of its 1994 and 1995 fiscal year earnings. Following a subsequent internal investigation with hired outside auditor KPMG, the firm fires the CFO and CAO for conducting a scheme to inflate earnings. The firm, CFO, and CAO settle with the SEC. The firm settles the shareholder suits for \$30 million.

**119. Mobilemedia**  
07/29/1995 to 09/27/1996



Whistleblower: Equity holder

Equity investor H&F uses its seats on MobileMedia's board to fire the CEO after a failure to integrate newly acquire MobileComm resulted in skyrocketing expenses and customer attrition. Prior management continued to be optimistic about the merger until they were removed. Subsequent to the management change, MobileMedia also disclosed that it is in violation of licenses with the FCC. A number of MobileMedia's licenses with the FCC are later revoked. Mobilemedia files for Chapter 11 and settles for \$26.5 million.

"... on June 6, MobileMedia announced a private stock offering to help pay skyrocketing integration costs that helped push MobileMedia's overhead expenses up 50% in the first quarter. Shares fell 19%, to about 14. On June 26, with cash flow stalled, MobileMedia was forced to ask bank lenders to loosen the covenants on its line of credit. Predictably, missed supplier payments followed, including some to its primary pager supplier, Motorola Inc. That finally kicked the board into action. In late July, H&F general partners John L. Bunce Jr. and Mitchell R. Cohen flew to New Jersey and, insiders say, fired Rorke. MobileMedia says he resigned. "That caused the company to go into a tailspin." Two other top execs soon followed. In the aftermath, the offering was halted, and H&F heavyweight F. Warren Hellman joined the board. Board member David A. Bayer, a frequent co-investor with H&F, became acting chairman and CEO."

Business Week

March 17, 1997

Headline: Anatomy of a Bankruptcy: Why were warning signs at MobileMedia overlooked?

Byline: Jennifer Reingold in New York

**120. Motorola, Inc.**

02/03/2000 to 05/14/2001



Whistleblower: Bond Analyst

Following a careful study of Motorola's SEC filing, a bond analyst revealed that the firm had a \$2 billion exposure in vendor financing with Telsim, a mobile phone operator in Turkey. Up to that point, Motorola had not revealed the extent to its dependence on vendor financing arrangements for its revenue. Additionally, Motorola did not indicate that it is having a problem with the vendor debt until \$728 of the loan was past due, at which point Nokia and Motorola file a suit against Telsim. Motorola writes off much of the debt and then wins in U.S. courts under racketeering charges against the family running Telsim. Motorola settles shareholder suit for \$190 million.

"So try this: "Motorola is up to its neck in short-term debt, and if its credit-rating gets cut, the market is likely to turn off the money taps that are keeping the company afloat. Oh, and for good measure, the company is owed a staggering \$1.7bn by a single customer in an emerging market country." That was written at the beginning of April by Mark Gilbert of Bloomberg News. At that time he was talking of Motorola "gorging in the debt markets", of both Moody's and Standard & Poor's putting the company's debt ratings on review for downgrade, of its short-term debt rising from \$2.5bn to \$6.4bn in 2000 alone. Gilbert, in turn, quoted Carol Levenson, author of the Gimme Credit bond newsletter in Chicago, who had first discovered the "landmines" buried in Securities and Exchange Commission (SEC) filings of the electronics firm.

Business A.M.

May 2, 2001

Headline: Motorola should face some hard questions.

Byline: Ian Bell

**121. National Golf Properties, Inc.**

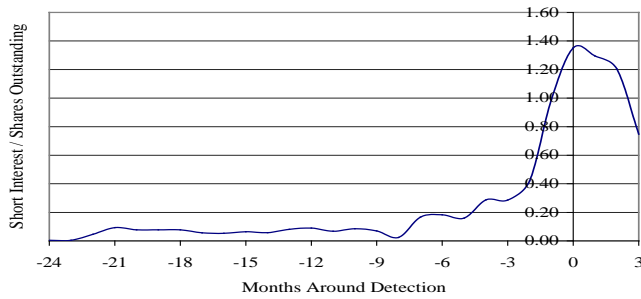
05/11/1999 to 04/01/2002

Whistleblower: Firm – reclassified as shortseller based on short interest

Real estate firm National Golf discloses that its primary lessee, American Golf, is unable to pay rent on its properties. American Golf is closely held by National Golf's chairman and CEO, an association shareholders claim is used to defraud outside holders via financial self-dealings. Distress at American Golf arising out of debt covenant breaches forces National Golf to address the relationship. American Golf enters bankruptcy, and National is bought out by investors after replacing management. National settles for \$4.2 million, jointly with the subsequent fraud.



## NATIONAL GOLF PROPERTIES



### 122. National Golf Properties, Inc.

05/11/1999 to 04/01/2002

Whistleblower: Law firm

In the process of discovery concerning the class action suit against National Golf, the law firm discovers that National Golf has issued \$31 million worth of equity paid to the benefit of Oaks Christian High School thereby diluting shareholders value. The cases are later combined into a single suit. National is bought out by investors after replacing management. National settles for \$4.2 million.

“Shareholders of golf course owner National Golf Properties Inc. have filed a class action suit alleging misappropriation of funds by Chairman David Price and violations of securities law, their lawyer said on Friday. Specifically, the complaint alleges that Price misappropriated funds from a publicly traded company and funneled them to himself via a scheme of complicated financial dealings involving National Golf and a variety of Price-controlled entities, the lawyers said.”

Reuters News

February 15, 2002 – 05:56 PM

Headline: Suit Alleges Securities Violations by National Golf

### 123. NCI Building Systems, Inc.

02/23/2000 to 04/12/2001

Whistleblower: Firm

NCI discloses that accounting executives have been incorrectly processing entries; in particular, inventories were substantially overstated. NCI restates earnings for 3 years, and fires senior financial executives responsible. NCI settles for \$7 million, covered by insurance.

### 124. NextCard, Inc.

03/30/2000 to 10/31/2001



Whistleblower: Industry regulator

A routine audit by the FDIC and the OCC revealed that NextCard improperly recorded credit losses and thus was significantly undercapitalized. Failing "prompt corrective action", NextBank, NextCard's wholly-owned subsidiary, went into receivership. NextCard itself soon reported a \$213 million loss and filed for bankruptcy protection. Insiders had sold \$9 million worth of shares at as high as \$10.89 per share, before the announcement brought the price to \$0.87 per share. Auditor Ernst and Young settles for \$23 million; the case is pending for NextCard.

#### In re NextCard, Inc. Securities Litigation

(United States District Court for the Northern District of California)

On October 31, 2001, NextCard announced that federal regulators, including the FDIC and the Office of the Comptroller of the Currency ("OCC"), had been investigating the Company's accounting practices and had required the Company to reclassify its fraud losses as credit losses. As a result of the government action, NextCard was considered "significantly undercapitalized" and was immediately subject to "prompt corrective action." After the October 31, 2001 announcement, NextCard's stock price fell from \$5.35 per share the previous day to \$0.87 per share, an 84% price drop in one day.

### 125. Nicor, Inc.

01/24/2002 to 07/21/2002



Whistleblower: Employee

An insider whistleblower faxes the local energy consumer board a letter detailing how Nicor, a utilities provider, cheated

customers by inflating expenses which are used to justify rates and by over-counting the service hours to be billed. The SEC's formal investigation results in a civil penalty of \$1.1 million to be refunded to consumers; three executives are indicted. Nicor settles the class action suit for \$38.5 million and settles with SEC for \$10 million.

“The Illinois Commerce Commission and state law enforcement officials are investigating allegations that Nicor Inc. boosted profits and overcharged its customers by manipulating a 2-year-old natural gas purchasing program. The regulatory agency began looking into the matter after the Citizens Utility Board (CUB) provided it with an in-depth memorandum believed to be written by a Nicor whistle-blower. The Chicago-based utility watchdog group received the memorandum by fax June 21 and does not know who wrote it; although CUB believes the author has intimate knowledge of the PBR program.”

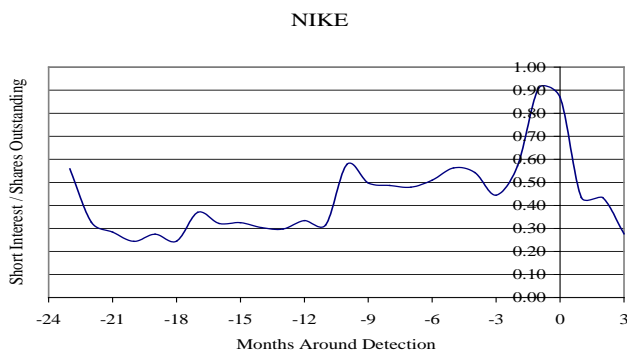
Crain’s Chicago Business  
 July 15, 2002; Vol: 25, Num: 28  
 Headline: Insider memo tags Nicor: Whistle-blower prompts state rate plan probe  
 Byline: Steve Daniels

**126. Nike, Inc.**

06/29/2000 to 02/26/2001

Whistleblower: Firm – reclassified to shortseller based on short interest

Nike warns that profits will be lower than expectations due to supply chain management failures in matching client orders with factory production. The firm fails to issue timely warnings to investors of pending earnings impact to software failures. Nike settles for \$8.9 million.



**127. Northeast Utilities**

04/05/1994 to 04/04/1996



Whistleblower: Employee

Whistleblower George Galatis informs multiple federal regulators of problems with refueling at the Millstone nuclear reactor. The Nuclear Regulatory Commission, after a length investigation, finds Galatis's claims to be substantiated, closes plants, and initiates criminal investigations of the firm and a number of officials. The shareholder settlement includes \$5 million.

“At the heart of the issue is Millstone's former practice of unloading all its radioactive fuel rods at once during refueling, even though its license allowed only a third of the rods to be removed. The risk, engineers said, is that the temperature in the pool where the rods were placed could rise so quickly that radioactivity could be released or -- in the worst case -- the water would boil away entirely, causing a dangerous meltdown if safety systems failed. When whistleblower George Galatis and others complained, Millstone managers deliberately delayed action and filed "incomplete and inaccurate" reports to the NRC, according to the federal agency.”

The Boston Globe  
 May 8, 1996  
 Headline: US units probing 2 Conn. N-plants Whistleblowers report harassment  
 Byline: Scott Allen and John Milne

**128. NorthWestern Corporation**

02/07/2002 to 03/31/2003



Whistleblower: Analyst

Analysts question the complex accounting entities used by NorthWestern as well as the company's payment of \$44 million to auditor Arthur Anderson. An ensuing SEC investigation reveals that NorthWestern's senior management subverted and reallocated losses of the failing subsidiaries Blue Dot and Expanets to minority shareholders, allowing the company to keep the losses off its balance sheets and to artificially inflate earnings. NorthWestern takes an \$880 million charge, ousts CEO, CFO, president and director, and files for bankruptcy in summer of 2003. Company settles shareholder suit for \$41 million.

“When Charles Fishman, a utility analyst with A.G. Edwards in St. Louis, looked at NorthWestern's latest annual report, he found the company's accounting methods curiously complex.”We've never seen anything like this before,” he says. “We do not believe this accounting methodology paints a good picture of reality.” Fishman says the complex accounting masks NorthWestern's losses and he's been nervous about the company for some time. He first downgraded NorthWestern's stock rating last May. ....Li is an analyst in Allentown, Pa., for Bethlehem Steel Pension Fund. He began looking into the company as a potential investment about a year ago. But after studying the books, he says he came away believing the accounting was suspect. NorthWestern's bookkeeping also puzzles Jim Bellessa, a senior analyst with D.A. Davidson & Co. of Great Falls. He says he's been studying NorthWestern for 18 months and can't keep track of all the moving parts.”

Missoulian

April 15, 2002

Headline: Some Taking Careful Look at NorthWestern

Byline: Jan Falstad

### 129. NUI Corporation

11/08/2001 to 10/17/2002



Whistleblower: Auditor

After replacing Arthur Andersen, auditor Deloitte & Touche reports a series of concerns – a lack of controls on ventures and acquisitions, non-reconciled capital accounts and projects without costs allocated. State energy regulators follow-up with a comprehensive audit, discovering that NUI was taking funds from regulated sectors to subsidize other failing entities including the post-Enron energy trading business. As a result, the rate charged to public utility consumers was inflated, a criminal act. NUI settles with State regulators, agreeing to refund consumers \$30 million, and pleads guilty to the SEC for criminal conduct with a fine of \$500,000. NUI forces out the managing family and sells the firm. Company settles shareholder suit for \$3.5 million.

“As NUI spread into other sectors, its accounting practices started to come under closer scrutiny from Deloitte & Touche, its internal auditor. By early 2003, the auditor’s reports were mentioning a lack of controls on new ventures and acquisitions, units that failed to reconcile budgeted and actual capital spending, and projects without budgets or actual costs. ... In the post-Enron world of inflated revenues and mystery businesses, that concerned regulators, and the state hired the Liberty Consulting Group of Quentin, Pa., to conduct an exhaustive audit. The 400-page report, which was completed this March, found NUI to be using cash from its money- making utilities to prop up the failing units, which the state had expressly forbidden as a condition of entering new businesses. In effect, there was one pool of cash for the multiple units, allowing unregulated business units to draw cash from utilities in the form of unstructured loans with no timetable for repayment. In October 2002, NUI followed by saying its businesses wouldn’t meet profit estimates.”

The Star-Ledger

July 18, 2004

Headline: Selling the Kean family dynasty - Deal for NUI Corp. ends 140-year reign

Byline: Tom Johnson

### 130. Olsten Corporation

05/31/1996 to 11/21/1996

Whistleblower: Firm

Olsten reveals that the recent acquisition of Quantam Health is unable to turn a profit in the home health care sector due to competition from managed-care entities, staffing shortages and integrating not within its core competency. During the class period, Olsten executives sell \$10 million in firm stock. The case is later combined into other class action suits and settles for \$24 million while company settles with SEC for \$122 million.

### 131. Olsten Corporation

05/31/1996 to 11/21/1996

Whistleblower: Industry regulator

California regulators had been investigating Quantum Health for Medicare over-billing when Olsten acquired the firm. New Mexico investigators announced that their similar investigations discovered a payout plan of gifts to encourage patients to take more product than necessary, thus over-booking the government for Medicare-covered items. Olsten eventually settles with New Mexico, reimbursing the government \$4.5 million. Class action suits are combined with other impropriety suits and settle for \$24 million.

“Olsten Corp.'s (OLS) planned acquisition of Quantum Health Resources Inc. (QHRI) is a strategically sound move for both companies, according to market observers. Quantum's shares rose 12.9% on news of the definitive merger agreement, which was announced after yesterday's market close. Shares of Melville, N.Y.-based Olsten fell 5.6%, apparently due to lingering concerns about difficulties Quantum experienced in 1995, including lackluster revenue growth, shareholder lawsuits and a dispute with California state regulators regarding the company's alleged overbilling for anti-hemophilic factor.”

Dow Jones News Service

May 2, 1996 – 01:52 PM

Headline: Quantum Health Shares Up 13% on Word of Olsten Merger > QHRI

“Olsten Corporation (NYSE:OLS) said today that the New Mexico Health Care Anti-Fraud Task Force is looking into allegations of improper billing and fraud against various federally-funded medical assistance programs on the part of Quantum Health Resources, which Olsten acquired in June 1996, and its post-acquisition successor, Olsten Health Services' Infusion Therapy division.”

Business Wire

May 7, 1997 – 07:38 PM

Headline: Olsten Corp. Cooperating With Health Care Probes

### **132. Olsten Corporation**

05/31/1996 to 11/21/1996

Whistleblower: Employee

Donald McClendon, an executive employee of Olsten whose firm had recently been bought by Olsten, serves as the internal source of information for a federal investigation of Medicare fraud against Olsten. Olsten was already being investigated in its newly acquired Quantam unit when federal authorities begin to look at the firm as a whole and approach McClendon. The U.S. Attorney General confirmed that funds were being allocated to federal investigators to root out Medicare fraud happening across the country. Olsten pays a wrongful termination settlement to McClendon, a fine of \$61 million to the government and settles class action cases for \$24 million.

“Donald S. McLendon lived in Atlanta barely two years. His life as a health care executive was stressful, he said, eventually ending when he accused his employer of Medicare fraud. But as a result of a \$ 41 million settlement with the company, Olsten Corp., the federal government will pay McLendon \$ 9.8 million for his role as a whistleblower. And, if the government succeeds in a related case against hospital giant Columbia/HCA Healthcare Corp., McLendon could collect tens of millions more. Now living in the Orlando area, McLendon insists he's earned every penny -- part of which he must share with his Atlanta attorney, Marlan B. Wilbanks of Harmon Smith Bridges & Wilbanks. McLendon said he effectively lost his job at Olsten in September 1997 when the company learned he was cooperating in a government investigation of Olsten's Medicare billing.”

The Legal Intelligencer

July 22, 1999

Headline: Olsten Whistleblower to Receive \$9.8 Million

Byline: Jonathan Ringel

### **133. OM Group**

04/25/2005 to 10/30/2002

Whistleblower: United Nations (Government Agency)

The United Nations issues a report identifying the OM Group as having illegally traded with the Democratic Republic of Congo for cobalt. OM Group's CEO, James Mooney, had secretly collateralized all his OMG shares in a Merrill Lynch margin account for cash loans. Mooney delayed the announcements hoping that OM Group could report positive financial results and avoid margin calls on the account. OM Group settles for \$82.5 million.

“OM Group Inc has been hit by a potential credit downgrade, the falling price of cobalt, an impending report on the companies accounting methods, and a UN report naming a joint venture partner as one of 29 companies which pillaged the mineral wealth of the Democratic Republic of Congo (DRC). The UN report covers: the company's involvement with Gecamines, Scories du Terril de Lubumbashi, and access to copper, cobalt, and germanium (3000 tonnes) stockpiles worth \$2 bn.”

Chemical Marketing Reporter

October 28, 2002

Headline: OM Group Stock Plunges on UN Report

### **134. Omnicom Group, Inc.**

02/20/2001 to 06/11/2002



Whistleblower: Director

An Omnicom director resigns with the statement that he disagrees with the firm's use of an asset-sheltering entity. Follow-up newspaper reporting reveals that the entity is being used by the firm to avoid having to write-down the value of internet assets which the firm had acquired during the internet bubble. The Enron fallout over accounting via special purpose entities and the questionable role of Arthur Andersen make the audit committee, and especially the whistleblowing director, especially sensitive to sheltering concerns.

“A longstanding director of advertising holding company Omnicom Group Inc. quit the board after expressing concerns about the creation of an entity that houses Omnicom's Internet assets, people familiar with the matter said.”

The Wall Street Journal

June 10, 2002

Headline: Leading the News: Omnicom Director Quits Due to Entity Concerns

Byline: Vanessa O'Connell and Jesse Eisinger

### 135. Oracle Corporation

12/15/2000 to 03/01/2001

Whistleblower: Firm

Oracle stock falls 26% when the company surprises the market by missing expectations. In the weeks preceding the announcement, Oracle's CEO Ellison sold \$900 million worth of stock. Ellison pays a \$100 million fine to charity to settle insider trading charges. The firm case remains in court.

### 136. Orbital Sciences

04/21/1998 to 02/16/1999



Whistleblower: Auditor

Orbital Sciences' auditor KPMG advises the firm to change certain accounting methods, including how it recognizes revenue and expenses. The continuing disagreement results in KPMG being fired. During the class period, Orbital twice tries to spin off its OrbComm subsidiary, an entity responsible for some of the revenue concerns. Client NASA reviews its contracts with Orbital, and advises its field offices to proceed with caution when dealing with the firm. Shareholder suit settled for \$22.5 million.

“Orbital Sciences Corp. of Dulles said in a filing with the Securities and Exchange Commission yesterday that it dismissed its auditor, KPMG LLP, after that firm advised the satellite maker of "material weaknesses" in the way it recorded financial information. In a separate report, Orbital said KPMG had advised it by letter that the satellite maker had a weak "system of internal controls" related to recording financial information submitted by the company's subsidiaries and operating divisions. The announcement represents the latest disagreement between the firm and its auditors. The company had to restate its earnings for the first three quarters of 1998 because of an earlier accounting dispute”

The Washington Post

April 30, 1999

Headline: Orbital Sciences settles for \$22.5 million.

Byline: Sarah Schafer

### 137. Oxford Health Plans, Inc.

11/06/1996 to 10/24/1997



Whistleblower: Analyst

After analyst Anne Anderson repeatedly raised concerns that Oxford numbers were less exciting than reported revenues and earnings, evidence surfaced that Oxford was not only delinquent in paying doctors and hospitals, but also many months behind in sending bills to members and collecting premiums. After reporting a \$78 million loss for Q3, the stock price dropped 63%, erasing \$3.4 billion market value in one day. Oxford settles for \$225 million, plus \$75 million from KPMG, Oxford's auditor.

“1997 Independent analyst Anne Anderson makes a lone sell call on Oxford Health Plans, up 40% in 12 months. After Oxford reveals a third-quarter loss, the stock plunges 60% in one day, erasing \$3.4 billion in market value.”

Money Magazine

July 1, 2002 – Vol. 31, Issue 7

Headline: The Rise & Fall Of Analysts Wall Street has always made bad calls-- and the occasional good one too. Here are some key moments in a profession whose history is one part skill, the other part shill.

Byline: Joan Caplin

**138. PeopleSoft**  
05/27/1998 to 01/28/1999



Whistleblower: Analyst

Analysts taking a closer look at quarterly financials conclude from accounts receivable that firm sales are slowing. After denying a slowdown for another 3 quarters, PeopleSoft finally admits slowing growth, reports earnings below estimates and warns on the following quarter. PeopleSoft also reveals that the SEC is investigating its accounting methods in recent acquisitions. The SEC later deems the firm's accounting practices appropriate. PeopleSoft settles for \$15 million.

“PeopleSoft Inc. Shares fell 6.9 percent on Wednesday after the business software publisher reported sales that were less than Wall Street expected, raising concerns that the company's growth is finally slowing. After the market closed on Tuesday, PeopleSoft reported first-quarter earnings that were better than analyst forecasts, but the growth rate of software sales was slightly below some estimates, analysts said. The company also is taking longer to collect money from customers, signaling more competition in the business management software industry, said Doug Crook, software analyst at Prudential Securities in San Francisco. “The quarter was fine, but I downgraded the stock because of the rich valuation and what appears to me as a deceleration in the company's momentum,” Crook said.”

Reuters News

April 22, 1998

Headline: PeopleSoft shares fall with slower growth seen.

**139. Peregrine Systems, Inc.**  
07/19/2000 to 05/06/2002



Whistleblower: Auditor

KPMG's initial audit of Peregrine Systems after taking over for failing Arthur Andersen is delayed as an internal investigation into irregularities ensues. The firm later announces that it will restate the two prior years and fires KPMG for conflict of interest over the restatements. Peregrine restates revenue down by \$100 million due to improper recognition in sales channels, takes a \$100 million charge to expense stock options and writes off \$100 million in accounts receivable. The firm is investigated for fraud by the SEC and DOJ and files for Chapter 11. The CFO and VP of sales plead guilty to conspiracy. The firm settles suit for \$56.3 million.

“Software maker Peregrine Systems Inc. on Monday said its two top executives resigned and announced it might need to restate results as part of a probe into accounting inaccuracies involving up to \$100 million in revenue. The potential accounting inaccuracies were brought to the attention of Peregrine's audit committee by KPMG, which was hired in April to replace Arthur Andersen LLP as its auditors.”

Reuters News

May 6, 2002; 1:58pm

Headline: Update 3-Peregrine begins probe - CEO, CFO quit, stock falls.

Byline: Ilaina Jonas

**140. Pharmacia Corporation**  
04/17/2000 to 08/21/2001



Whistleblower: Industry regulator

The FDA, presumably suspect over Pharmacia's analysis of its blockbuster arthritis drug Celebrex only using half of the data, publishes the research on the internet. The Cleveland clinic cardiologists, who are whistleblowers in the similar Merck Vioxx case, obtain the full dataset and discover that the incidence of heart attacks is higher for patients taking both types of COX-2 drugs, Celebrex and Vioxx. The FDA and European regulators do not allow Pharmacia to make its claims on Celebrex's success in treating arthritis with lower incidence of ulcers relative to past drugs. The Department of Justice investigates Pharmacia's actions and class action cases are yet pending.

“The step backfired. The FDA panel, in an unusual move, published the research on the Internet. This disclosed that Pharmacia had a half year of Celebrex data beyond what it published -- and the full, 12-month trial showed worse results regarding ulcers than did the six months of data published in JAMA.”

The Wall Street Journal

August 22, 2001

Headline: Note of Caution: Study Raises Specter Of Cardiovascular Risk For Hot Arthritis Pills --- Vioxx and Celebrex Marketers Dispute the Research, Sought to Downplay It --- A Spurned Appeal to JAMA

Byline: By Thomas M. Burton and Gardiner Harris

**141. PhyCor Inc.**  
04/22/1997 to 07/22/1998



Whistleblower: Employee

After a failed \$8 billion acquisition of MedPartners, disgruntled internally contracted doctors started to post concerns on internet bulletin boards about delayed payments, instigated lawsuits against PhyCor and tried to discontinue their contracts. It was then found that PhyCor's top officers falsified reports and misrepresented its operating efficiencies and cost savings in advance of acquisition announcement. PhyCor settles for \$10.1 million.

"The 150-doctor HoltKrock Clinic in Fort Smith is one of the biggest in PhyCor's stable. But now doctors at Holt-Krock are in revolt. More than half of them voted last fall to renegotiate or dissolve their ties to PhyCor. When the company balked, 38 of the physicians sued to get out of their contracts and the clauses that forbid them to set up competing practices within about a 30-mile radius for 18 months. They said PhyCor wasn't doing enough to justify its management fee of 15% of profit. PhyCor's sprawling Jacksonville, Fla., operation. There, about half of the 110 doctors have submitted their resignations, and the city's primary hospital system has beat back a challenge from PhyCor doctors seeking to capture major managed-care contracts and outpatient revenue. With emotions high, tactics got low down. A snarky newsletter began circulating called The Krack-Pot. In one edition, an anonymous author wrote: "I've lost count of how many doctors have been run off . . . err, left since we joined FightCorp. . . This is no big deal since good doctors do grow on trees."

The Wall Street Journal

May 4, 1998

Headline: Sick Business -- The Resurgent Turmoil In Health Care --- M.D. Management: PhyCor Tries to Mesh Doctor Practices, Finds It `Like Herding Cats' --- Consolidator Gets Into Feuds Such as One in Arkansas Where Clinic Is Rebellious --- Sniped at by `The Krack-Pot'

Byline: Anita Sharpe

**142. Physician Corporation of America**

03/31/1996 to 03/31/1997

Whistleblower: Firm

Failing to complete the merger with Sierra, PCA announces that it is in default of a bank debt agreement and that its credit facility is due. It also announces a \$277 million loss for 1996. PCA was charged for failure to disclose deteriorating financial condition of its property and casualty subsidiary. It was also alleged that its merger with Sierra was used to hide financial crises. PCA settles for \$10.2 million.

**143. Pinnacle Holdings Inc.**

06/29/1999 to 08/14/2001

Whistleblower: SEC

SEC initiates investigation of how Pinnacle accounts for recent acquisition and independence of auditor. Investigation disclosed by company but public statements suggest nothing improper, followed by statement of need to restate financials for previous three years. Pinnacle settles for \$4.1 million with additional payments by auditor and individual defendants of \$6.9 million.

**144. Plains Resources, Inc**

10/29/1998 to 11/26/1999

Whistleblower: Firm

Plains Resources reveals that unauthorized trading activity by an employee ("a rogue trader") at their crude oil trading operations has generated a loss of \$160 million. Contrary to the policy in the prospectus, the trades were not hedged. The firm settles for \$30 million.

**145. PMA Capital Corporation**

05/05/1999 to 02/11/2004



Whistleblower: Bond Analyst

In rating PMA Capital's new debt issue, Moody's expresses concern about the adequacy of loss reserve charges recently taken by PMA. CS First Boston reiterates the same concern 4 months later. After that PMA takes a charge to its loss reserves and announces that it is in negotiations with the State regulator. PMA pulls out of the reinsurance business and changes management. PMA proposes settlement for \$15 million.

"Moody's Investors Service announced today that it has assigned a Ba1 rating to \$50 million of 8.5 % senior unsecured notes issued by PMA Capital Corporation (PMACC). Moody's currently rates PMACC's operating subsidiaries, PMA Capital Insurance Company (PMACIC) and the intercompany pool members of PMA Insurance Group, Baa1 for insurance financial



strength. The outlook for the ratings on PMACC and its operating subsidiaries is negative. According to Moody's, the ratings on PMACC and its operating subsidiaries reflect its improved liquidity profile, the favorable underwriting environment that currently exists and its conservative investment portfolio. These strengths are attenuated by concerns related to the potential for further adverse loss reserve development, its geographic concentration in the politically sensitive workers' compensation market, increasing operating leverage and the company's limited scale."

Moody's Investors Service

June 4, 2003

Headline: Moody's Rates PMA Capital Corp – Senior Notes Ba1 – Outlook is Negative

"PMA Capital Corp. (PMACA) will record a \$150 million pretax charge to strengthen PMA Re's loss reserves at Sept. 30, prompting the company to suspend its common dividend."

Dow Jones News Service

November 4, 2003

Headline: PMA Cap Announces Reserve Chg And Suspension Of Common Stk Div

#### **146. PNC Financial Services**

07/19/2001 to 01/29/2002



Whistleblower: Industry regulator

In a post-Enron environment of heightened scrutiny of financial subsidiaries, the Federal Reserve forces PNC to take an earnings adjustment to write-off non-performing loans that PNC has transferred to a financial entity. The bank settles with the Fed and becomes subject to a strict monitoring scheme imposed by the regulator before settling the class action suit for \$203 million.

"PNC Financial was advised by the Federal Reserve that it was improperly accounting for its preferred stake in subsidiaries of an outside financial institution."

TheStreet.com

January 29, 2002

Headline: PNC Revising 2001 Earnings to Reflect Fed Accounting Advice; It must consolidate three units of an outside company and cut its earnings by 53 cents a share.

#### **147. Procter & Gamble**

01/25/2000 to 03/06/2000

Whistleblower: Firm

P&G revises downward its Q3 and fiscal 2000 earnings estimates, citing higher-than-anticipated costs and a delay in US approval of its osteoporosis drug Actonel. P&G previously forecasted a rise of 7% to 9% in Q3 EPS; it revised its estimates to a fall of 10% to 11%. The stock falls 31%. P&G settles for \$49 million after the CEO resigns.

#### **148. Protection One, Inc.**

02/10/1998 to 02/02/2001



Whistleblower: SEC

SEC investigates accounting practices after Protection One buys Westinghouse Security and files registration statements to purchase another firm. Protection One, under SEC pressure, restates earnings for two fiscal years, and reverses \$10.4 million income to \$2.6 million loss. Protection One settles for \$7.5 million.

"Protection One, Inc.(NYSE:POI) announced today that as a result of discussions with SEC staff SEC, the company will restate its 1997 operating results and its results for the first three quarters of 1998. These discussions were related to the registration statement filed by Protection One in connection with the proposed acquisition of Lifeline Systems, Inc. (Nasdaq:LIFE)."

Business Wire

April 1, 1999 – 04:15 AM

Headline: Protection One Announces Restatement

#### **149. Providian Financial Corporation**

01/21/1999 to 05/26/1999



Whistleblower: District attorney

San Francisco district attorney investigating consumer complaints found that the consumer lending giant has been intentionally not posting credit card payments on time in order to record late fees and penalties as revenues, as well as charging customers for services not requested. The stock price fell 40% after disclosure. Providian settles for \$38 million.

“The San Francisco district attorney's office is investigating consumer lending giant **Providian** Financial Corp. for possible fraud, the San Francisco Chronicle reported on Wednesday. The stock of San Francisco-based Providian declined sharply, falling \$15.375 to \$108.75 in afternoon trading on the New York Stock Exchange. The allegations involving the nation's ninth-largest credit card issuer included practices in the sale of credit cards, disclosure of terms and collection of debt, the newspaper reported.”

Reuters News

May 19, 1999 – 03:18 PM

Headline: Providian Under Investigation by DA - Paper

#### **150. Providian Financial Corporation**

06/06/2001 to 10/18/2001



Whistleblower: Analyst

Credit Suisse First Boston and Goldman Sachs analysts identify and highlight a glossed over change in processing of bankruptcy filings, whereby the firm appears to have deferred recognizing losses of \$30 million from uncollectible credit by 30 days, thereby lowering its charge-off rate and inflating the stock price. While this is going on, management sells \$22 million worth of their personal holdings. Providian settles for \$65 million.

“Analysts have raised sharp questions about the manner in which **Providian** Financial Corp. revealed it had changed its policy on how it accounts for bad loans, but the credit-card issuer defended its actions on Monday and denied it was an accounting trick. Credit Suisse First Boston and Goldman Sachs analysts cut their earnings outlooks and Providian shares have tumbled nearly 9 percent since the credit-card issuer disclosed in a regulatory filing two weeks ago that is now taking up to 30 days to write off accounts when customers notify them that they will not pay because of bankruptcy.”

Reuters News

August 27, 2001 – 03:58 PM

Headline: Providian's Bad-Loan Policy Change Raises Questions

#### **151. PSINet, Inc.**

03/22/2000 to 11/02/2000

Whistleblower: Firm

PSINet announces that the previously announced expectations of tripling the revenue and large profitability were false, and that it has a \$1.4 billion loss, including a \$504 million asset write-down in its newly acquired, but non-performing Metamor Worldwide. President and COO resignations ignite a massive company restructuring, which eventually leads to a sell off the business. PSINet settles for \$17.8 million.

#### **152. PSS World Medical**

10/26/1999 to 10/03/2000

Whistleblower: Competitor

Fisher Scientific, in the due diligence process before acquiring PSS World Medical, found that PSS had overstated a required EBITDA target, inflating its stock price. The merger was called off, but it wasn't until the following year that PSS announced an intention to restate earnings. PSS settles for \$6.75 million.

While Fisher had abandoned the merger because of the results of its own due diligence review, the public became aware of the truth only on June 27, 2001. On that date, PSSI filed its Form 10-K for the fiscal year ended March 31, 2001 with the SEC and disclosed, for the first time, the fact that the Company's internal controls over inventory, accounts payable, sales, and accounts receivable were, at all relevant times, materially deficient and that the Company had previously issued financial statements for the quarter ended June 30, 2000 which were materially misleading. As a result of these problems, the Company is forced to restate its previous financial data, reducing EBITDA below the threshold that would have allowed the merger to be completed.

#### **153. Quorum Health Group**

10/25/1995 to 10/21/1998



Whistleblower: Employee

Former CFO initiates a qui tam suit, charging Quorum with filing false reimbursement claims to Medicare and Medicaid since 1984. After a six year investigation into such practices, the federal government intervenes in a Civil False Claims Act lawsuit against Quorum. Quorum settles for \$11.75 million.

“Quorum Health Group, Inc. (Nasdaq: QHGI), said today it "has cooperated fully with the government and intends to continue to do so" in connection with a five-year-old inquiry into the Company's procedures for filing Medicare cost reports. The comments came in response to media inquiries after Quorum disclosed in a filing with the Securities and Exchange Commission that the government would likely commence litigation on or about October 5, 1998. The Company has been told the government action is in connection with a 1993 qui tam lawsuit that it understands is due to be unsealed on October 5. Quorum provided information in response to government requests from June of 1993 through approximately June of 1996, Ms. Davis said, and was next contacted in August of 1998 to discuss the matter with the Department of Justice. At that time, Quorum learned that the investigation was prompted by allegations of a former employee of a not-for-profit hospital that had a management contract with a Quorum subsidiary.”

PR Newswire

September 28, 1999

Headline: Quorum Cooperating in Inquiry

**154. Qwest Communications International, Inc.**

11/09/1999 to 04/24/2002



Whistleblower: Analyst

Morgan Stanley analysts assert that Qwest's exposure to failing Dutch venture KPNQwest, its improper pension accounting, and its capitalization of software costs will hurt future earnings for the firm. After vehemently denying the report, Qwest writes off \$3.1 billion the following month. Later that the year, Morgan Stanley's accusation of overly aggressive accounting proves to be true as well. Qwest's CEO sold over 4 million shares during the period. Qwest settles suit for \$11 million and in related action settles with SEC for \$250 million.

“Qwest Communications International on Wednesday fired back at one of Wall Street's biggest investment banks for a research report that questioned the telecommunication provider's accounting methods and estimates of future profits. 'I'm extraordinarily disappointed with what I consider irresponsible and unprofessional behavior from a major investment bank,' Qwest chief executive officer Joe Nacchio said in a conference call Wednesday. The CEO added that Qwest's financial reporting includes no improprieties. Morgan Stanley Dean Witter & Co. analyst Simon Flannery on Wednesday downgraded Qwest from 'outperform' to 'neutral' and projected the company's earnings per share would grow 11 percent a year instead of 19 percent for 2002. He asserted the company 'quietly' wrote off \$2.1 billion in assets after its \$44 billion merger last June with US West and raised concerns Qwest had aggressively capitalized its software costs, boosting earnings in the short term but sapping future profits. Flannery noted that Qwest would have to write off a large amount of its interest in European joint venture KPNQwest. Qwest valued its interest in the fiber-optic network at \$7.9 billion last year, but at current market values it is worth only \$2 billion.”

Denver Post

June 21, 2001

Headline: Qwest calls report 'irresponsible' Morgan Stanley Analyst Doubts Profit Projection

Byline: Kris Hudson and Aldo Svaldi

**155. Qwest Communications International, Inc.**

05/24/1999 to 07/28/2002



Whistleblower: Newspaper

Following the prior woes of Qwest's venture in the Netherlands and accusation of accounting concerns by Morgan Stanley, the Wall Street Journal discovers that Qwest has been generating revenue by using a three-party scheme to buy and re-sell equipment, improperly booking the entire transaction as revenue. In the subsequent 8 months, Qwest embarks on a series of internal investigations changing both auditors and management. Eventually, it writes off \$20-30 billion in assets and re-states \$2.5 billion in earnings due to improper accounting entries. Qwest settles shareholder suit with most defendants for \$400 million, with one defendant for \$65 million and in related action settles with SEC for \$250 million.

“Qwest Communications International Inc. has been doing some creative revenue boosting of its own. In four deals during the past two years, Qwest sold equipment valued at \$450 million to a company, and, in turn, Qwest agreed to pay the buyer hundreds of millions of dollars for Internet services using the equipment it had sold. Qwest -- a telecommunications company that doesn't make equipment but had instead bought the gear -- booked the equipment sales as revenue. Meanwhile, the buyer, KMC Telecom Holdings Inc., financed the equipment and put the debt on its books.”

The Wall Street Journal

February 13, 2002

Headline: Deals With KMC Helped Qwest to Improve Its Books

Byline: Deborah Solomon and Steve Liesman

“An article in The Wall Street Journal yesterday disclosed four transactions in which Qwest sold equipment to KMC for \$450 million in 2000 and 2001 and, in turn, agreed to pay KMC hundreds of millions of dollars for Internet services using the equipment it sold. Qwest booked the equipment sales as revenue and said it would record profit from the sales over the life of the agreement.”

The Wall Street Journal

February 14, 2002

Headline: Qwest Defends Accounting Practices, Says it Disclosed KMC Deals to Investors

Byline: Deborah Solomon

#### **156. Raytheon Company**

10/17/1998 to 10/12/1999



Whistleblower: Newspaper

The Wall Street Journal reports that defense contractor Raytheon is behind schedule and over costs on a number of government contracts. The firm had previously taken a \$350-450 charge for restructuring, but failed to reveal problems with production, including the loss of a Navy contract. This loss requires additional charges of \$320 million and a reduction in future revenues. The company settles with shareholders for \$410 million.

“Raytheon Co., long viewed as a successful example of defense-industry consolidation, is over cost or behind schedule on more than a dozen of its Pentagon fixed-price contracts, according to people familiar with the programs. Among the fixed-priced contracts that are running over cost are Raytheon's lucrative Tomahawk cruise missiles, P-3 Orion patrol aircraft and RC-135 reconnaissance aircraft programs, said those familiar with the matter. Also having troubles are the shoulder-held Javelin missile, the Navy Extremely High Frequency Satellite Communications program, and the conversion of a military plant in Umatilla in northern Oregon for commercial use, they said. The financial impact of the cost overruns is unclear. But the total value of the programs is upwards of \$2 billion. The Javelin program, which Raytheon shares with Lockheed Martin Corp., totals at least \$745 million, while the Tomahawk program alone exceeds \$800 million. A Raytheon spokeswoman declined to comment on details of the Pentagon meeting or the coming investor conferences. But a company statement noted that Raytheon has more than 6,000 contracts of varying size and complexity, and so "it is not unusual that issues may arise on a few that require attention.”

Dow Jones Business News

October 11, 1999 – 11:56 PM

Headline: Raytheon Falls Behind Schedule on More Than a Dozen Pentagon Contracts

Byline: Anne Marie Squeo

#### **157. Reliant Energy, Inc.**

04/30/2001 to 05/14/2002



Whistleblower: Industry regulator

After FERC announces that it will investigate Enron-type round trip trading in Reliant Energy, the firm announces that it had conducted such activities in California to inflate revenues. Reliant later settles for \$68 million.

#### **158. Revlon**

10/29/1997 to 10/01/1998

Whistleblower: Firm

Facing the need to restructure labor and debt, Revlon warns that quarterly earnings will fall well shy of Wall Street estimates due to reduced inventory levels and decreased demand from consolidating drug stores. Investors charge Revlon with channel stuffing their distribution lines, presumably timed with Revlon's acquisition of the Cosmetic Center and with Revlon's putting its highly leveraged entity on the block. After stopping shipments for the rest of the year to relieve the inventory glut, Revlon settles with investors for \$9.9 million.

#### **159. Rite Aid Corp**

05/02/1997 to 11/10/1999



Whistleblower: Employee

Joseph Speaker, a senior finance executive at Rite Aid, informs the board of large accounting irregularities at Rite Aid. After firing the CFO, naming Speaker as CFO, and conducting an internal audit, the board admits to overstating earnings by \$1.1 billion, primarily in inventory overvaluation. In the process, the investigation discovers that the soon-to-be-fired CEO hid pledges on assets backing short-term debt. Rite Aid suits are combined with prior class action suit and settled for \$200 million.

“What went wrong at Rite Aid? In the 16 months since news broke of a major accounting scandal at the drugstore chain, Rite Aid Corp. has been reluctant to reveal details of how the company overstated profits by more than \$1 billion from 1997 to 1999, leaving investors in the dark about the debacle.... As the complaint portrays it, the scheme began to unravel in the fall of 1999, largely due to the efforts of Joseph Speaker, a senior finance executive at Rite Aid who began openly questioning past accounting practices. Mr. Speaker, whose whistleblower role wasn't previously known, became acting chief financial officer in mid-1999 after Mr. Bergonzi resigned under pressure; Mr. Speaker left the company late last year. Mr. Speaker hired a lawyer and brought his concerns to the board's audit committee on Oct. 7, 1999. It authorized him to hire an outside accounting firm, which found massive accounting problems. On Oct. 15, the complaint says, the board asked for Mr. Grass's "immediate resignation" after it discovered the asset pledge and falsification of minutes.”

The Wall Street Journal

February 8, 2001

Headline: Lawsuit Details Rite Aid's Accounting Woes

Byline: Mark Maremont

#### 160. Rite Aid Corporation

12/14/1998 to 03/11/1999

Whistleblower: Firm

Rite Aid fails to disclose delays in opening its new distribution center and costs, especially from inventory liquidation, related to its large scale relocation and opening of stores. Just over two weeks prior to its release of quarterly earnings, Rite Aid cuts earnings projections by half. The resulting class action case is later engulfed into a single suit with additional impropriety claims. The combined suit settles for \$200 million.

#### 161. Schering-Plough Corporation

05/09/2000 to 02/15/2001



Whistleblower: Industry regulator

The FDA's continuing investigations of Schering-Plough's manufacturing in New Jersey and Puerto Rico find severe manufacturing noncompliance issues. The FDA has been advising the firm of concerns for over a year. Meanwhile, Schering-Plough's petition to the FDA for approval of Clarinex, a successor drug to its blockbuster Claritin, whose patent is expiring, is held up by the FDA while manufacturing concerns are resolved. The case becomes publicly charged as the FDA turns over the case to criminal authorities. Skirting prosecution, Schering-Plough settles accepting a fine of \$500 million from the FDA in a consent decree. Schering Plough settles with SEC for \$1 million

“Regulators have delayed their approval of a new antihistamine, dubbed "super Claritin," being developed by Schering-Plough Corp. The letter from the FDA, received on Jan. 19, 2001, indicates that the agency is prepared to approve the application if certain conditions are met, a process that could take a few days or months.”

The Wall Street Journal

January 29, 2001

Headline: FDA Approval for Allergy Drug From Schering-Plough Is Delayed

Byline: Beth M. Mantz and Gardiner Harris

“The Food and Drug Administration advised Schering-Plough that the deficiencies found during the plant inspections must be resolved before it would approve desloratadine, which will be called Clarinex.”

Dow Jones News Service

February 15, 2001

Headline: Schering-Plough Warning, Mfg Issues Catch Street Off Guard

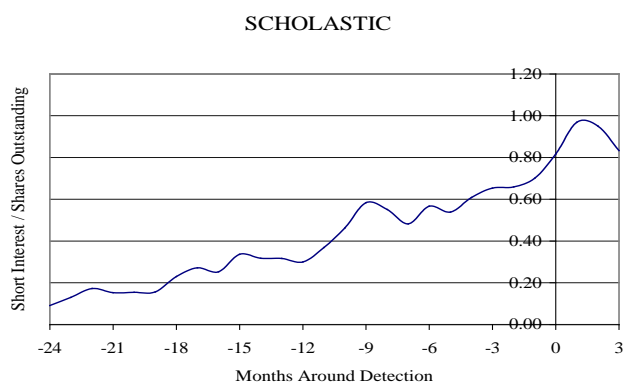
Byline: Beth M. Mantz

#### 162. Scholastic Corporation

12/06/1996 to 02/20/1997

Whistleblower: Firm – reclassified to shortseller based on short interest.

Scholastic fails to disclose in a timely manner that sales are waning in its primary revenue product, the Goosebumps series of children's books, and that it lacks controls to monitor sales adequately. Scholastic warns of a significant loss and announces it will take a charge primarily to increase reserves for anticipated returns of retail stock. The SEC later files a suit alleging insider trading against several individuals, including a Scholastic executive. Scholastic settles the shareholder suit for \$7.5 million.



### 163. Scientific-Atlanta, Incorporated

04/19/2001 to 07/19/2001



Whistleblower: Analyst

Despite previous statements by the firm had reaffirmed that Scientific-Atlanta's cable products would withstand a negative downturn in the industry, analysts sense management worries at an industry conference resulting in pessimism about Scientific-Atlanta's outlook. A few days later the firm warns on the fiscal year income and admits it was over-supplying the distribution channels to meet targets. During the class period, executives sold \$38 million in shares.

“Shares of Scientific-Atlanta Inc. (SFA) dropped 10.6% Wednesday after an analyst meeting at the National Cable and Telecommunications Association's annual conference prompted anxiety that the company's set-top box sales could slow down in 2002. "We would characterize management's tone as slightly less bullish than in recent weeks," said Monica Matyjaskiewicz, analyst at Credit Suisse First Boston Corp., in her note Wednesday. Matyjaskiewicz maintained a buy rating but projected fiscal 2002 estimates will be revised downward in the near-term.”

Dow Jones News Service

June 13, 2001; 11:18am

Headline: Scientific-Atlanta Off 8%; Investors Fear Slower '02 Sales

Byline: Ellen Sheng

### 164. Sealed Air Corporation

03/27/2000 to 07/30/2002

Whistleblower: Law firm

Salomon Smith Barney analysts note that an adverse court ruling will increase the odds that Sealed Air will face some liability for asbestos-related claims, as it acquired Cryovac from WR Grace, but has not established a reserve to cover the potential judgment. Sealed Air agrees to pay \$838 million in cash and common shares to extinguish current and future asbestos claims.

“Asbestos litigation against Sealed Air (NYSE: SEE) in Saddle Brook popped back into the news last week. A federal court judge in Newark ruled that W.R. Grace could intervene as a defendant in a fraudulent-transfer lawsuit against Sealed Air, the maker of bubble wrap and other packaging products. The suit, brought by plaintiffs who have filed asbestos claims against W.R. Grace, seeks to void the transfer of a business that Grace sold to Sealed Air in 1998.”

Business News New Jersey

July 1, 2002

Headline: This Bubble Hasn't Burst

Byline: Marshall McKnight

### 165. Sears, Roebuck & Co.

04/16/1994 to 04/10/1997



Whistleblower: Consumer Lawyers

In 1995 and 1996, Sears was brought to the Boston Federal Bankruptcy court for failing to comply with laws regarding collecting debt from individuals in bankruptcy. Rather than complying Sears stops reporting the collections. A class suit by bankrupt consumers brings the practice to light. Sears is fined \$100 million by the FTC, \$40 million in State suits, and \$60 million in a criminal guilty plea. Sears settles the securities class action for an unknown amount. Sears settles with the SEC for \$140 million.

“Sears, Roebuck and Co. said Thursday it would refund money collected from some credit card debtors who declared bankruptcy and made repayment agreements with Sears that the nation's No. 2 retailer now says were improper. Sears outlined the plan in a filing with U.S. Bankruptcy Court in Boston. The company said it had received documents related to the issues involved and stemming from a class-action lawsuit filed with the court.”

Reuters News

April 10, 1997 – 01:07 PM

Headline: Sears to Refund Payments of Certain Debtors

**166. Sears, Roebuck & Co.**

01/17/2002 to 10/17/2002

Whistleblower: Firm

In firing the head of the credit card division for Sears due to "personal credibility" issues, Sears CEO opens this area of the firm to intense scrutiny. Information emerges that Sears is carrying a large portfolio of uncollectible accounts for which its control system has failed to sufficiently take provisions, despite Sears claims in the annual report that the reserves are adequate. Sears settles the shareholder suit for \$215 million.

**167. Sensormatic Electronics**

01/12/2001 to 04/09/2001

Whistleblower: Firm

Sensormatic announces that due to the lack of sales materializing at the end of the quarter, earnings would be 66% below expectations. In the month before the announcement, insiders sold \$5.5 million of stock. The firm settles for \$4.95 million.

**168. Sepracor, Inc.**

05/17/1999 to 03/06/2002



Whistleblower: Industry regulator

FDA rejects drug Soltara as a result of fears about cardiac problems and weaknesses in prior trials, facts known by management but not revealed to investors. Case settles for 52.5 million.

“Now that shares of Sepracor have been crushed because U.S. drug regulators rejected its highly anticipated allergy drug Soltara on Thursday, shell-shocked investors and analysts are trying to figure out whom to blame. The FDA rejected Soltara mainly because it said Sepracor didn't test the drug's safety for a long enough period of time. Specifically, the agency is concerned that small amounts of the drug can accumulate in a person's tissues and cause potential heart problems. But other fund managers suggest that Sepracor is not blameless here because there is ample precedent that could have led the company to conduct more stringent safety testing. French drug firm Aventis did exactly this before getting Allegra approved by the FDA. The reason: Allegra is also a reworked version of an older allergy drug, Seldane, which was pulled from the market for the same irregular heartbeat concerns. The FDA rejection letter today also mentioned safety concerns that cropped up in two clinical studies conducted on animals, but Sepracor has never made these studies public.”

TheStreet.com

March 7, 2002

Headline: Investors Display Allergic Reaction to Sepracor; The stock is decimated as the company bristles over the FDA's rejection of the allergy drug Soltara

Byline: Michael Dunn

**169. Service Corporation International**

04/29/1999 to 04/19/2002



Whistleblower: Employee

When managers of Service Corp.'s Menorah Gardens funeral home realize that the engineering of its plots is faulty, workers begin to remove caskets and corpses as deemed necessary such that new caskets can be laid next to family members. Some corpses are later found in the woods. The information comes to light when a fired employee files a suit against the firm and tells the judge that he was made to desecrate graves. Service pays \$10 million to the State government under a civil settlement and \$100 million to families of the deceased. One employee is indicted. The firm agrees to bury the poor for free.

“A Broward circuit judge sharply criticized a Menorah Gardens executive Tuesday for failing to fully investigate claims that bones from desecrated graves were tossed in the woods near a West Palm Beach cemetery. Families sued the cemeteries



and SCI in December after the Florida attorney general's office launched an investigation into the company's practices. State law requires a judge's permission for a class-action suit to be filed. Frucht said he learned of the possibility that bones were in the wooded area in 2000 after gravedigger Claude Etienne, who had been fired, filed a small-claims suit and told a judge that he was forced to desecrate graves.”

The Miami Herald

September 4, 2002

Headline: Florida Judge Criticizes Service Corporation Executive's Cemetery Inquiry.

Byline: Andrea Elliott

**170. Service Corporation International**

07/17/1998 to 01/26/1999

Whistleblower: Firm

Ten days after antitrust approval is given to Service Corp., a funeral home provider, to purchase rival Equity Corp., Service announces that lower mortality rates have lowered earnings for the year. The CEO resigns, and the firm settles shareholder suit for \$65 million.

**171. Shopko Stores, Inc.**

03/09/2000 to 11/09/2000

Whistleblower: Firm

Shopko discloses that it has been unable to coordinate merchandise on its retail floors with that contained in its advertising, an issue stemming from problems a clogged distribution center. ShopKo failed to disclose, until this point, integration and expansion problems with newly acquired Pamida resulting in the distribution failures. ShopKo settles the class-action suit for \$4.9 million.

**172. Silicon Graphics, Inc.**

07/24/1997 to 10/06/1997



Whistleblower: Newspaper

After Business Week portrays Silicon Graphics as a firm in decline, the firm misses its positive earnings expectations, reporting a quarterly loss instead. The firm reveals that it had been pulling revenues from future quarters to make past quarterly targets, and future revenues would also be impacted. During the class period, the firm exchanges outstanding debentures for convertible debt and insiders sell \$7.4 million in stock. The firm settles for \$4 million.

“Indeed, interviews with more than 85 people inside and outside SGI reveal a company that lost touch with basic business practices. Until recent months, poor planning often led to the company shipping products that generated a staggering 80% of its quarterly revenue in the last month of the quarter--leaving no margin for error.”

Business Week, Number 3538

August 4, 1997

Headline: The Sad Saga of Silicon Graphics: What went wrong at the company that once made everybody say: “Gee whiz.”

Byline: Robert S. Hof and Ira Sager

**173. Sirius Satellite Radio, Inc.**

02/16/2000 to 04/02/2001

Whistleblower: Firm

The CEO announces that, to secure a \$150 million loan from Lehman Brothers, Sirius Satellite Radio announced "impossibly ambitious" launch dates for its products, even without automakers ready to equip models with satellite radios. CEO resigns, service start is delayed for a year, and Sirius settles for \$8 million.

**174. Solectron Corporation**

06/18/2001 to 09/26/2002



Whistleblower: Employee

Ronald Sorisho, a divisional CFO, files a whistleblower suit alleging that Solectron fired him for trying to force the company to write down substantial quantities of obsolete inventory. The company had known about the inventory for nearly a year and a half when it announced an inventory charge a week after Sorisho files the suit. The case settles for \$15 million.

“In a lawsuit filed in Superior Court in San Jose late last month, Ronald Sorisho contends that he was fired on July 31 after spending several months unsuccessfully trying to persuade Solectron's top management to write off \$45 million of obsolete inventory at Solectron's Technology Solutions business unit. A week after Sorisho filed the lawsuit, Solectron announced

that it was writing off \$97 million in inventory as part of its fiscal fourth-quarter financial results.”

San Jose Mercury News

October 6, 2002

Headline: Former Executive Sues Solectron for Alleged Wrongful Termination.

Byline: Therese Poletti

**175. Sotheby's Holdings, Inc.**

02/11/1997 to 01/29/1998



Whistleblower: Government agency

The Department of Justice indicts Sotheby's for price fixing after a long investigation of the art industry. Shareholders sue the firm for failing to disclose that a large portion of their revenues are being derived from the unsustainable high prices achieved through the pricing arrangement with Christie's. A number of individuals are indicted. Sotheby's settles customer class action suits for \$512 million and securities suits for \$70 million.

“Justice Department investigators have subpoenaed truckloads of financial documents from more than a dozen prominent Manhattan art dealers and from Sotheby's and Christie's, the world's largest auction houses, in what appears to be a wide-ranging antitrust investigation.”

The New York Times

June 3, 1997

Headline: Top Art Dealers Are Subpoenaed In Possible Price-Rigging Scheme

Byline: Carol Vogel

“Evidence of commission-fixing in the international art market has been supplied to the US justice department by Christie's, one of the two leading auction houses. ...The justice department's investigation first came to light in the summer of 1997, when lorry loads of documents were taken away from Sotheby's and Christie's by government investigators in New York City.... The auction houses believed they were safe from prosecution until late last year, when Mr Davidge provided information on an allegedly collusive arrangement with Sotheby's to his successors.”

Financial Times

January 29, 2000

Headline: Christie's Admits Fixing Commissions.

Byline: William Lewis and Robert Peston

**176. Sprint Corporation: FON and PCS Common Stock**

10/04/1999 to 09/19/2000



Whistleblower: Law firm

A law firm sues Sprint executives for profiting from the failure of the merger with MCI Worldcom. During the merger negotiations, Sprint executives alter the charter so that the event triggering their option payout vesting is not the takeover itself, but the vote of shareholders to accept the offer. The managers should have known that there was a high probability that the federal antitrust authorities blocked the merger (as it indeed happened). Many of the executives with option packages left the firm prior to the suit. Sprint settles for \$50 million.

“MCI WorldCom Inc.'s \$115 billion bid for Sprint Corp. puzzles antitrust experts, who are unable to agree how quickly - or even whether - it will win approval from government authorities.”

Reuters News

October 10, 1999

Headline: MCI WorldCom Puzzles Antitrust Experts.

Byline: David Lawsky

“The scotched merger provided a great benefit to one group at Sprint, the company's executives. A shareholder lawsuit, which is to be filed today on behalf of a New York bank, asserts that before the merger agreement was reached, Sprint's board secretly changed the terms of its stock option plan in a way that ensured that the executives could cash in if a merger was approved by Sprint shareholders, whether or not the merger was completed.”

The New York Times, Page 1, Column 5

December 13, 2000

Headline: Failed Merger Said to Enrich Sprint Leaders

Byline: Floyd Norris

**177. Sprint Corporation: FON and PCS Common Stock**

10/17/2000 to 02/05/2003



Whistleblower: Newspaper

An article by the New York Times alerts the IRS to the existence of four tax shelters promoted by Ernst and Young. Subsequent IRS investigations charge Sprint's top executives with personal tax evasion via a mechanism that allows them to cash out options without incurring tax liability for up to 30 years. The scheme saves the individuals substantial tax liabilities, some of which are internalized by Sprint. The board forces out the executives and suits are yet pending.

“The chief executive of the Sprint Corporation, William T. Esrey, said last night that he could lose his entire fortune if the Internal Revenue Service decided that a tax shelter that he and the company's No. 2 executive bought from the company's auditors was improper. The shelter, called E.C.S., for Equity Compensation Strategy, was described last June in The New York Times. It was one of four Ernst & Young tax shelters that the firm told clients could result in little or no tax bill. After the article appeared in The Times, the I.R.S. announced that it would disallow tax savings sought under one of the four shelters. Mr. Esrey's disclosure is the first evidence that the I.R.S. is questioning the E.C.S. shelter.”

The New York Times

February 6, 2003

Headline: Tax Shelter Is Worrying Sprint's Chief

Byline: David Cay Johnston with Jonathan D. Glater

**178. SPX Corporation**

07/28/2003 to 02/26/2004



Whistleblower: Analyst

SPX's quarterly reports reveal a 25% earnings increase over the prior year, but analysts note that the earnings were largely due to a legal settlement payment from Microsoft. Pressured by analysts, the firm holds an analyst dinner and acknowledges that the firm has poorly communicated and that it is experiencing a downturn in operating margins. The CEO sold \$41 million of stock during the class period, up until the day prior to the announcement. SPX settles shareholder suit for \$10 million.

“Shares of the Charlotte-based industrial products and services company tumbled 21 percent last Friday to \$42 as several analysts complained that fourth-quarter results and the 2004 forecast were disappointing. During meetings in Charlotte with analysts and investors both Tuesday night and Wednesday morning, Blystone acknowledged a communication problem and pledged to address it, according to several who attended.”

Dow Jones News Service

March 4, 2004 – 04:19 PM

Headline: SPX Attempts to Appease Wall Street

Byline: Mary Ellen Lloyd

“It has since become clear that that the Charlotte, N.C.-based company, with a market capitalization of \$2.6 billion, props up its earnings with a wide variety of "special" items -- from tax benefits to pension-fund gains to profits on interest-rate derivatives. ... The problems started to show up on Feb. 26. ... Oh sure, SPX managed to exceed the 2003 earnings target by a penny a share -- reporting profits of \$264.6 million, or \$3.41 a share. But buried in that number was a non-recurring gain of some \$42 million or 40 cents a share after taxes from a patent-infringement lawsuit it had brought against Microsoft and settled just a week before the end of the fourth quarter. Even more disconcerting, the company, which had convinced a trial court that Microsoft had intentionally infringed on its patent, may have left tens of millions of dollars in additional damages on the table by suddenly settling in order to make the year-end number. The following day, the stock plummeted 21%, from 53.30 to 42, in frenzied selling. Adding to investors' anger was the fact that Blystone, over the six weeks before the earnings release, had unloaded some 800,000 of his SPX stock, realizing proceeds of over \$40 million.”

Barron's

September 13, 2004

Headline: Numbers Game: The clever Accounting at SPX, a Mini Conglomerate, Can't Work Forever

Byline: Jonathan R. Laing

**179. Stillwater Mining Company**

04/20/2001 to 04/01/2002



Whistleblower: SEC

SEC, during review of Stillwater's registration statement, discovers that Stillwater has been improperly recording mineralized material as probable reserves, in order to decrease equipment depreciation and avoiding impairment charges.

“Stillwater Mining Co., a palladium and platinum producer, warned on Tuesday it may have to restate its earnings downwards due to a U.S. Securities and Exchange Commission probe into how the company determines probable ore reserves. Stillwater's disclosure that the Securities and Exchange Commission wants the company to revise the way it accounts for probable ore reserves sent its stock tumbling more than 16 percent on the New York Stock Exchange. Shares closed down \$3.15 at \$15.47. "The SEC questioned the methodology because they were concerned it may be different from how they interpret the industry standards. What we are saying is that we have checked and validated that, and we believe we are OK," McAllister said.”

Reuters News

April 2, 2002 – 05:33 PM

Headline: UPDATE 2 – Stillwater Says SEC Queries May Cause Restatement

Byline: Janet McGurty

### 180. Sunbeam Corporation

04/23/1997 to 06/30/1998

Whistleblower:Newspaper “Chainsaw Al” Dunlap, known for cutting costs at troubled firms, becomes Sunbeam's CEO in 1996. After a series of cost cutting measures, Dunlap begins an aggressive leveraged acquisition strategy, buying three firms for \$2.5 billion in March 1998, with media outlets raising concerns about accounting gimmickery. In April, Sunbeam announces that its own earnings are failing to perform, despite assurances by Dunlap. In the process, the inflated stock price has helped to finance the mergers. Sunbeam goes into bankruptcy. Company settles shareholder suit for \$141 million. Arthur Andersen is fined \$110 million and Sunbeam executives, \$220 million, of which they pay only \$30.8 million.

“We can't say we are surprised by **Sunbeam's** current woes. In a cover story last year entitled "Careful, Al" (June 16), we cast a skeptical eye at Dunlap's growth objectives in the low-margin, cutthroat small-appliance industry. We also pointed out the yawning gap between **Sunbeam's** performance claims and reality. We took special note of **Sunbeam's** **accounting** gimmickry, which appeared to have transmogrified through **accounting** wizardry the company's monster 1996 restructuring charge (\$337 million before taxes) into 1997's eye-popping sales and earnings rebound. But to no avail. Wall Street remained impressed by **Sunbeam's** earnings, and the stock continued to rise from a price of 37 at the time of the story. ...”

[Barron's](#)

8 June 1998, p. 17.

Headline: “**Dangerous Games: Did "Chainsaw Al" Dunlap manufacture Sunbeam's earnings last year?**”

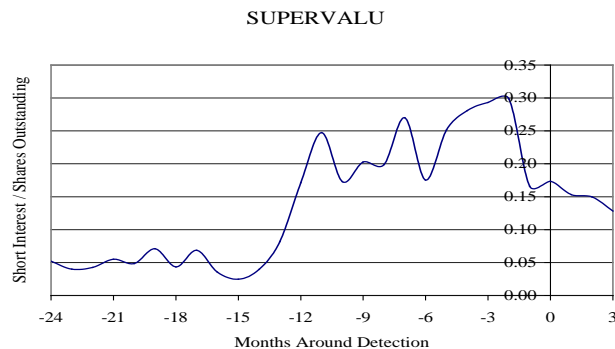
Byline: Jonathan R. Laing

### 181. SUPERVALU, Inc.

07/12/1999 to 06/25/2002

Whistleblower: Firm – reclassified to shortseller based on short interest

During a routine internal audit, a Supervalu controller admits that she had been understating the cost of goods sold. After the employee resigns, the firm conducts a full audit and eventually restates earnings for three years. The firm settles for \$4 million.



### 182. Symbol Technologies, Inc.

10/19/2000 to 02/13/2002



Whistleblower: Employee

After an anonymous employee's letter to the SEC details accounting irregularities in two transactions and suggests that many more improprieties exist, the SEC initiates an investigation of Symbol Technologies. Symbol's activities included channel stuffing, booking of revenue to false customers or for returned merchandise, making acquisitions to hide declining earnings in merger accounting and falsifying invoices for the SEC staff. All top management resigns; some are indicted. Symbol settles with shareholders for \$98 million.

"The investigation of fraud at Symbol... began in April 2001 with an anonymous letter sent to the Securities and Exchange Commission. The letter described two transactions that appeared to involve improper accounting and said those two were "just the tip of the iceberg."

The New York Times

June 4, 2004

Headline: Ex-Executives At Symbol Are Indicted

Byline: Steve Lohr

### 183. Tel-Save Holdings

08/14/1997 to 05/22/1998

Whistleblower: Client – reclassified as shortseller based on short interest

The chairman of Tel-Save's client, Sensormatic Electronics Corp, releases a letter to the press that raises concerns over the questionable behavior of Tel-Save regarding its relationship and transactions with Group Long Distance Inc.. These transactions artificially inflated Tel-Save's reported income and "shifted millions of dollars in marketing expenses off the books". The CEO of Tel-Save, a large shareholder, profits greatly from such transactions. Tel-Save settles for \$5.8 million.

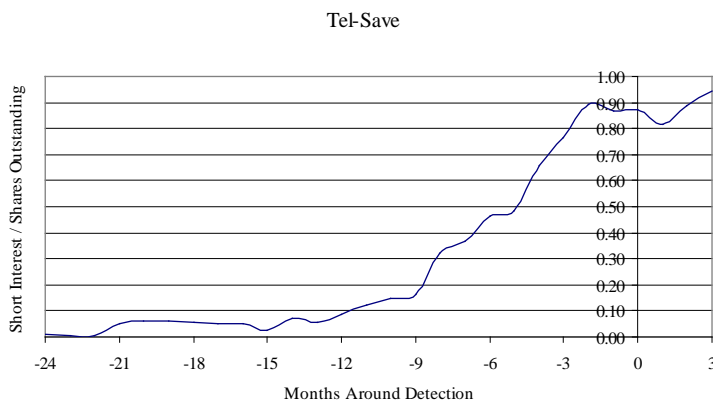
"Shares of Tel-Save Holdings Inc. (TALK) fell more than 12% over the past two trading sessions, after an article published on Internet news site TheStreet.com raised questions about the company's methods for accounting for its expenses. At issue is an article published Friday that centers on a letter sent by Ronald Assaf, chairman of Sensormatic Electronics Corp. (SRM), and James Lineberger, who the article identifies as a Sensormatic founder, to Tel-Save Chairman Daniel Borislow. In the article, Assaf and Lineberger describe a method by which Tel-Save made loans to Group Long Distance Inc. (GLDI), a Tel-Save reseller. Assaf and Lineberger are identified in the article as two large shareholders of Group Long Distance. The loans, totaling millions of dollars, were used to pay for the costs of marketing. In return, Group Long Distance used warrants to buy Tel-Save stock at below-market prices, then sold that stock and used most of the profits to repay Tel-Save for the loans. According to the article, the two accusers allege that Tel-Save used the method to "shift millions of dollars in marketing expenses off its books," and to sell its stock without reporting sales to the Securities and Exchange Commission."

Dow Jones News Service

May 26, 1998

Headline: Tel-Save Dn on On-Line Report Questioning Accounting Method

Byline: Brian Steinberg



### 184. Tenet Healthcare Corporation

01/11/2000 to 11/07/2002



Whistleblower: Employee

An employee informs federal authorities of unnecessary heart surgeries conducted at a Tenet hospital. The unnecessary procedures result in, among other things, Tenet's overbilling of Medicare and patients. Subsequent investigations by the firm, federal health agencies and the SEC ensue. A number of health and securities suits are still pending. Tenet settles shareholder suit for \$215 million.

“Tenet Healthcare, one of the largest for-profit hospital chains, said yesterday that one of its California hospitals had been raided by federal officials seeking information for an investigation into unnecessary surgeries, including open-heart surgery, and possible Medicare billing fraud.”

The New York Times

November 1, 2002

Headline: Tenet Hospital In California Is Searched By U.S. Agents

Byline: Reed Abelson

“Suspicious colleagues put the spotlight on two cardiologists at a California Hospital owned by Tenet Healthcare who allegedly performed hundreds of unnecessary invasive heart procedures, according to an affidavit filed by the FBI... "From that point on (the colleague) felt that Moon and the cardiology program ... were much too aggressive in their diagnosis and treatment of patients," the affidavit said. The affidavit said the same suspicious colleague warned the former chief executive of the hospital in 1998 or 1999, and current chief executive Hal Chilton in the summer of 2001, that unnecessary heart procedures were being performed. But he said there was no indication any corrective action was taken.”

Reuters News

November 1, 2002; 6:04pm

Headline: Colleagues pointed finger at Calif. heart doctors.

Byline: Ransdell Pierson

#### **185.     **Textron, Inc.****

10/19/2000 to 09/26/2001



Whistleblower:       Client

Three accidents of Textron's Osprey helicopters kill 26 marines in 2000, triggering the government to ground the helicopter. Nearly a year later, Textron announces that the aircraft would take two years to redesign. The firm had known that the problems with the aircraft were fundamental to the hydraulic system from evidence from the crashes the year prior. Textron settles shareholder suit for \$7 million.

“The company has also been stung by the troubles of the V-22 program. The Defense Department has had the program on hold since December, after two crashes in eight months killed a total of 23 Marines. Harris said Bell is working with the Navy and the Marine Corps to implement corrective actions and design changes that were recommended in May by a special review panel.”

Fort Worth Star – Telegram

September 1, 2001

Byline: Bob Cox

“Textron-Boeing's V-22 Osprey will need at least two years of flight testing before the Pentagon can conclude the aircraft is safe, effective and worth its cost, says the Pentagon's top acquisition official.”

Bloomberg News

October 17, 2001

Headline: Osprey's Grounded for the Time Being, Pentagon says

Byline: Tony Capaccio

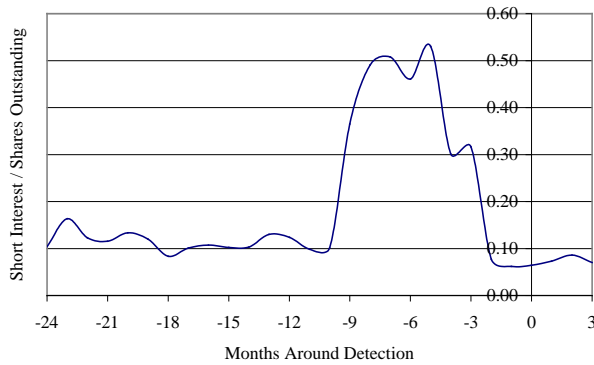
#### **186.     **The Boeing Company****

07/21/1997 to 10/22/1997

Whistleblower:     Firm – reclassified to shortseller based on short interest

Boeing fails to reveal that as a result of a large number of orders, understaffing, and supplier delinquencies, the production lines would have to be halted to deal with backlog and sequencing. Boeing had previously announced that the production problems were temporary and were being resolved. Instead, Boeing is forced to take \$2.6 billion in charges. Boeing settles the class action suit for \$92.5 million.

**BOEING**



**187. The Interpublic Group of Companies, Inc.**

10/28/1997 to 10/16/2002

Whistleblower: Firm

A move toward a more integrated accounting system results in Interpublic's discovery that expenses incurred for revenues booked across divisions were not being properly recorded. The board's heightened concern over the validity of financial statements in the post-Enron environment forces the firm to identify numerous small transactions that were improperly recorded. The firm restates earnings for 5 years, and the Board makes numerous management changes. Interpublic settles for \$115 million.

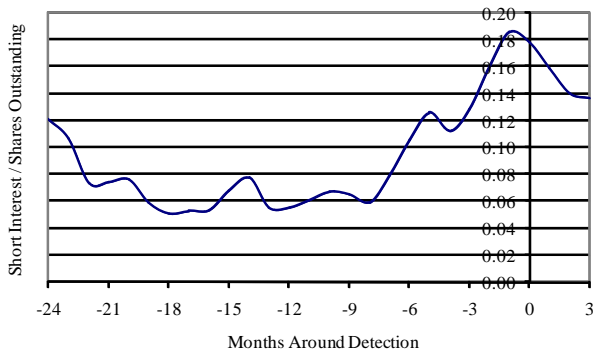
**188. The St. Paul Companies, Inc.**

11/05/2001 to 07/09/2002

Whistleblower: Firm – reclassified to shortseller based on short interest

Although St. Paul is sued by Western MacArthur for an asbestos liability in March, St. Paul does not make public the magnitude of the suit exposure until the firms settle in May for \$1 billion. St. Paul is under-reserved by \$380 million, which significantly impacts firm value and worries analysts about other exposures. During the class period, St. Paul was trying to spin off its reinsurance arm, but the negative impact of the asbestos exposure and the poor IPO market deter the offering. St. Paul settles for \$6.3 million.

**ST PAUL(1)**



**189. The St. Paul Travelers Companies, Inc**

04/01/2004 to 08/05/2004

Whistleblower: Firm

Following the merger of St. Paul and Travelers, the combined entity announces that St. Paul Travelers would have to take a charge of \$1.6 billion, due to aggressive use of actuarial calculation of reserves and reserve needs on the part of St. Paul. At the time of the merger, the firm fails to disclose the very different accounting approaches. The information comes to light as St. Pauls asks the SEC if they can attribute the adjustment to merger valuation rather than taking an expense event. St. Pauls settles for \$67.5 million and company settles with SEC for \$77 million.



### 190. Thomas & Betts Corp.

04/28/1999 to 12/14/1999

Whistleblower: Firm

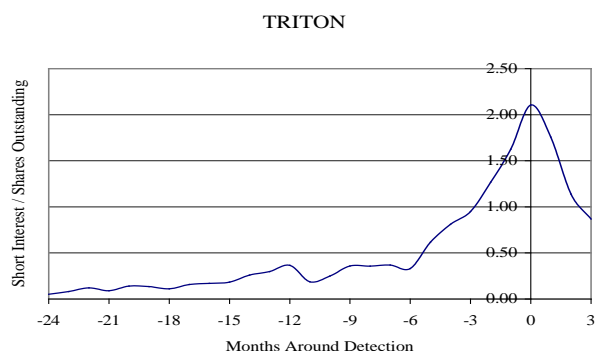
Conversion of its control system following a series of acquisitions leads Thomas & Betts to uncover accounting irregularities in billing. The irregularities and troubles in implementing its previously praised web-based order processing are revealed by the firm as it misses earnings targets by 40%. Three executives are charged by the SEC for securities laws violations concerning the accounting records. Thomas & Betts settles for \$46.5 million and auditors/ investment banks settle with SEC for \$4.65 million.

### 191. Triton Energy Incorporated

03/30/1998 to 07/17/1998

Whistleblower: Firm – reclassified to shortseller based on short interest

Triton's CEO attempts to sell the company by inducing much fanfare in the bidding interest and making an assessment that the value should be \$50/share. (The CEO's options become in the money at a price of \$40.) Triton later reveals it has not received an acceptable offer, announces a \$160 million after-tax charge reflecting current low oil prices, writes-off exploration expenditures in war-torn Columbia, restructures the firm's activities, and fires the CEO. Triton settles for \$49.5 million.



### 192. TXU Corporation

04/25/2002 to 10/11/2002



Whistleblower: Analyst

Despite the utility provider's claims to the contrary, a Merrill Lynch analyst asserts that TXU's continued regulation problems in the UK market would lower earnings for the entire firm. TXU re-asserts the strength of its European position and promises \$500 million to support the subsidiary. The firm backtracks on the promise, allows the UK unit to default, and writes off \$4.5 billion. During the class period, TXU raises nearly \$1 billion on the equity markets. Shareholder suits are settled for \$150 million.

"Merrill Lynch said analyst Steven Fleishman on Tuesday cut his rating on TXU Corp. on a much lower expectation of earnings in Europe. "While TXU's US business is one of the few to be on target for this year, TXU Europe (roughly 25 percent of company) continues to deteriorate. We believe the earnings risk is now worse than the prior worst case guidance of a \$0.20/share hit," he wrote in a research note."

Reuter News

October 1, 2002; 8:34

Headline: Research Alert - Merrill Cuts TXU to 'Neutral'.

"TXU Corp. wants to abandon its European electricity wholesale and retail businesses, a sign that energy companies' trouble in forays into the unregulated world go beyond the U.S. market.:

The Wall Street Journal

October 15, 2002

Headline: TXU Is Set to Cut Europe Business, Lowers Estimate

Byline: Kathryn Kranhold

### 193. Tyco International Ltd.

02/01/2000 to 02/01/2002

Whistleblower: Short-seller

As far back as 1999, short seller David Tice predicted Tyco's overvaluation due to aggressive accounting in its acquisition-led growth. Although an SEC investigation and class action suit ensue in 1999, both cases are dismissed for lack of evidence. In

2002, the SEC Insight, a newspaper whose information is taken from SEC documents obtained through the Freedom of Information Act, makes the assertion, that turns out to be wrong, that Tyco may be subject to a new SEC investigation. Because of uncertainty on the market due to the presence of short sellers, Tyco loses \$8 billion of market value on the SEC Insight report. Soon thereafter, Tyco warns on earnings and halts its massive flow of acquisitions. In the coming months, information emerges that Tyco had paid an outside director and his charity \$20 million for arranging an acquisition that later fails and that Tyco spent \$8 billion in acquisitions not previously disclosed to its shareholders. Tyco takes a charge of approximately \$1 billion on revenue recognition reversals. CEO Kozlowski and CFO Swartz are found guilty of stealing more than \$150 million from the company, including loans made to finance art and apartments. Tyco settles shareholder suits for \$2.975 billion, company settles with SEC for \$50 million, officers settle with SEC for \$240.1 million and auditors/investment banks settle with SEC for \$225 million.

“But Kozlowski also faces more pointed questions about Tyco's financial credibility. As 1999 ended, he was on the ropes over accusations that he had used accounting tricks to pump up Tyco's results. The charges, first leveled by short-seller and accounting analyst David W. Tice of David W. Tice & Associates, cut Tyco's stock in half and prompted a Securities & Exchange Commission inquiry. The SEC ended its investigation last July without taking any action.”

Business Week  
May 28, 2001

“A speculative report in an obscure newsletter usually doesn't help to erase 7%, or \$8.7 billion, from a big company's market value. That is what happened to Tyco International late last week, after the newsletter SEC Insight Inc. reported the Securities and Exchange Commission might be taking another look at Tyco's accounting practices. As it turns out, there isn't a fresh SEC probe, according to a person familiar with the matter. Still, the sudden stock tumble highlights the market's continuing nervousness about Tyco's accounting. Put simply, investors adore the acquisitive conglomerate's steady earnings growth, but some are afraid the numbers might just be too good to be true. Indeed, Tyco continues to be hounded by short sellers -- who try to profit by selling borrowed stock and replacing it with shares bought later at a lower price -- and other skeptics whispering about new accounting issues. As of mid-December, Tyco's stock was the 10th most heavily shorted on the Big Board, with a short interest of 66.1 million shares, up 6% from the prior month. The short interest was the equivalent of about six trading days, close to the NYSE average. The bears concede they can't point to any smoking guns, but say a number of smaller items raise concerns.... Tyco has been accused previously by critics of using such preclosure write-offs to boost future results, assertions it has strenuously denied.”

The Wall Street Journal  
January 7, 2002  
Headline: Tyco Tumble Reflects Wariness About Bookkeeping  
Byline: Mark Maremont

#### **194. UICI**

01/17/2000 to 07/21/2003

Whistleblower: Firm

When UICI's board fires CEO, new management announces that the firm will take a charge for having insufficient collateral for the Academic Management Service loan program. Not only was income over-stated, but the lack of proper controls made the firm out of compliance with regulators. All of the loans in question must be re-negotiated with financial institutions. The SEC begins an inquiry, and the division is soon sold to Sallie Mae.

#### **195. Union Pacific Corporation**

03/04/1997 to 10/01/1997



Whistleblower: Employee

After a series of train collisions killed 12 people in 8 months and increased regulator scrutiny, a Union Pacific union threatens to strike and informs the regulator that safety procedures are inadequate. The firm failed to divulge that the recent integration with Southern Pacific resulted in difficulties with traffic, delays, understaffing, and safety problems resulting from poor training and over-working of employees. The firm settles for \$34 million.

“A federal agency is shadowing Union Pacific's every move in an unprecedented companywide safety check prompted by a series of train collisions that killed 12 people in eight months..... The National Transportation Safety Board was reviewing records connected with the three fatal accidents in a separate investigation. ... In June, the Brotherhood of Locomotive Engineers union threatened to strike and sent a letter to the Federal Railroad Administration asking the agency to improve safety procedures.... The union applauded the safety investigation.”

Associated Press Newswires  
August 26, 1997 – 01:52 Pm  
Headline: Major Investigation Checks Union Pacific safety

Byline: Dawn Fallik

**196. Unisys Corporation**

05/04/1999 to 10/14/1999

Whistleblower: Firm

Unisys fails to disclose possible contingencies in the recent contract signings with the U.S. government and British Telecom. Unisys's touting of \$26 billion of contract revenue over the next 10 years increases the firm's stock price and facilitates an acquisition. Unisys reveals the contract failures during an earnings announcement in which doubts are cast on future revenues. The firm settles with shareholders for \$5.8 million.

**197. UNUMProvident Corporation**

02/04/1998 to 08/03/1999

Whistleblower: Firm

Shortly after the completion of the merger between UNUM and Provident, the firm announces an earnings shock due to unexpected merger cost and additional claims incidence. The firm fails to disclose at the time of the merger or during the due diligence process that insurance claims rejections were unsustainably high, resulting in law suits and unpaid claims which would accrue to the combined company. Reserves for such claims were also inadequate. UNUMProvident settles for \$45 million.

**198. UNUMProvident Corporation**

05/07/2001 to 02/04/2003



Whistleblower: SEC

During a routine review of filings, the SEC begins an inquiry into UNUMProvident's accounting for investments. He firm announces a charge and later restates earnings downward for 2000-2002 following the SEC prescription. During the class period, UNUM raises \$250 million in a bond offering.

"UnumProvident Corp. ... said it was answering questions from Securities and Exchange Commission about its accounting treatment of some investments. "The company has responded to requests for information from the staff of the SEC in connection with a review of the company's SEC periodic filings relating, primarily, to its investment disclosures and to the timing and amount of other-than-temporary losses recorded on below-investment-grade securities," UnumProvident said, in its earnings report."

Reuters News

February 5, 2003 – 04:26 PM

"UnumProvident Corp. (UNM) plans to restate financial results for 2000, 2001 and 2002 to resolve comments raised by the Securities and Exchange Commission, resulting in a \$29.1 million reduction in net income for the three-year period."

Dow Jones News Service

March 24, 2003 – 03:16 PM

Headline: UnumProvident Resolves Comments Related To SEC Filings

**199. VanStar Corporation**

03/11/1997 to 03/14/1997

Whistleblower: Firm

In order to pursue IPO and subsequent debt refinancing, VanStar exaggerates the success of a new product line that would transform the company into a computer service provider. After issuing shares and converting securities to help insiders cash out \$15 million, the company announces its impaired competitive position, slowing growth, weaknesses in the new product line, and inability to control expenses. VanStar settles for \$5 million.

**200. VeriSign, Inc.**

01/25/2001 to 04/25/2002



Whistleblower: Shortseller

Lehman Brothers analyst reduces ratings of VeriSign as it expresses concerns in VeriSign's ability to maintain the claimed organic growth of 35% as the market matures. In fact, VeriSign derives 10% of its revenues from dubious "barter transactions" and more from acting as both the lender and service provider for clients. VeriSign executives sell over \$26 million worth of shares before revealing the true situation. Verisign settles for \$80 million.

"For months, VeriSign has been a target of short sellers, betting on a stock decline. Among their hot-button issues: They say the company is plagued by bloated accounts receivable. For the fourth quarter, VeriSign's balance sheet showed receivables of nearly \$315 million. That is greater than its quarterly revenue of \$283.8 million, and marks a continuation of an upward

trend in receivables as a percentage of revenue.”

The Wall Street Journal

February 8, 2002

Headline: VeriSign Stock Hurt by Queries About its Books

Byline: Nick Wingfield and Jeff D. Opdyke

### 201. Veritas Software Corporation

01/24/2001 to 01/16/2003



Whistleblower: SEC

A SEC investigation forces Veritas to restate earnings for two years as a result of improper accounting practices in two transactions with AOL Time Warner, including a \$50 million software purchase by AOL, and a \$20 million advertising services purchase from AOL. The company's executives and officers, before the announcement of the restatement, have sold nearly \$15 million worth of shares at inflated prices. Veritas settles shareholder suit for \$35 million, and company settles with SEC for \$30 million.

“Veritas Software, the data storage company, on Friday said it would restate results for the last two years to alter the reporting of two deals with AOL Time Warner that are being investigated by the Securities and Exchange Commission. The accounting change involves a \$50m software purchase by AOL from Veritas and a \$20m advertising purchase by Veritas from AOL, both made during the waning days of the internet bubble in September 2000. Last year the SEC took an interest in these deals, as part of an investigation of AOL's accounting practices, and ordered Veritas to hand over documents relating to the transactions. The US regulator is investigating concerns that AOL inflated revenues through the use of "round-trip" deals. Veritas said on Friday it would adjust full year results for 2000 and 2001 and quarterly results between December 31, 2000, and September 30, 2002.”

Financial Times (FT.com)

January 17, 2003

Headline: Veritas Restates Past Two Years of Results

Byline: Jonathan Moules

### 202. Vesta Insurance Group

01/29/1998 to 06/01/1998



Whistleblower: Industry regulator

Vesta announces an accounting change that will force it to adjust its 1997 statutory results after engaging in discussions with the Alabama Department of Insurance during its routine examination. The firm fires its CEO and CFO. After the completion of its internal investigation with outside legal counsel, Vesta announces it will restate earnings for 1993 to 1998, lowering net income by \$72.4 million. The Alabama Securities Commission and the SEC open investigations into the accounting problems, but conclude the inquiries without any actions. Vesta settles the class-action suit for \$61 million.

“Vesta Insurance Group Inc Monday said an accounting change caused it to adjust its 1997 statutory results. The company announced the change "following discussions with the Alabama Department of Insurance during its routine examination," a release said.”

Reuters News

March 16, 1998

Headline: Vesta Says Adjustment Will Not Hurt Results

### 203. Warnaco Group, Inc.

12/11/1997 to 07/20/2000



Whistleblower: Client

Calvin Klein launches a lawsuit against Warnaco, claiming it has been selling off merchandise to unauthorized discount retailers. Pre-trial discovery reveals Warnaco has been dumping merchandise on stores, allowing them to return it after the quarter end so that executives could meet EBITDA targets. Warnaco settles for \$12.85 million, and former auditor PriceWaterhouseCoopers is fined \$2.4 million for not bringing the wrong-doing to light.

“Warnaco also in part blamed negative publicity surrounding a legal battle with its largest licensor, Calvin Klein, for its financial woes. In May, Calvin Klein Inc. sued to break its licensing agreement with Warnaco on the grounds that the manufacturer had tarnished the designer's trademark by producing substandard merchandise and distributing it through unauthorized stores like warehouse clubs.”

The New York Times

July 21, 2000

Headline: Warnaco Says it Will Once Again Miss Earnings Projections

Byline: Leslie Kaufman

"Former employees recall that in the last week of each quarter, Mrs. Wachner would round up her senior executives on the company plane and visit the headquarters of Costco, Sam's Club and BJ's consecutively until enough merchandise was sold to meet the revenue numbers the company had promised to Wall Street. "If we were not making the numbers, we were on the plane trying to dump merchandise," said one former employee from Warnaco's Klein division. These employees said that in addition to eroding the brand integrity of her most important licensee, such discount sales were corroding the company's relationship with department stores, Warnaco's most important clients. "In order to make our numbers one quarter, she sold over one million units to Sam's Club," recalled another former employee, referring to pairs of jeans. "These were first-quality goods that were scheduled to go department stores. "It left all the people who we had orders with, like Federated and May, high and dry and very angry," said the former employee, referring to the two big department store companies."

The New York Times

May 6, 2001

Headline: Questions of Style in Warnaco's Fall

Byline: Leslie Kaufman

#### 204. Warnaco Group, Inc.

09/29/2000 to 04/18/2001



Whistleblower: Auditor

Poor financial results leave Warnaco in violation of covenants. According to a Forbes article, auditors force Warnaco to reveal this information, something management and banks had hoped to delay to allow for better prices in sales of assets. In addition to shareholder suit, which settles for 7.3 million, SEC fines executives \$1.8 million and professional service firm 2.4 million.

"Warnaco announced that it would not be holding a conference call with analysts as scheduled on Mar. 27 to discuss fourth-quarter and year-end results. Losses, the announcement added, would be "substantially greater" than previously estimated. Behind the scenes Warnaco was waging an astonishing battle with its auditors. The company admitted in its conference call that it was in violation of the covenants on an agreement to extend the maturity on a portion of its debt that it had signed just six months earlier. It stated that it had gotten a waiver from its bankers but only until Apr. 16. The bankers have since extended the waiver until May 16. What the company didn't explain: the consequences of losing the battle with its auditors. That's why Warnaco has been stalling, filing one document after another with the Securities & Exchange Commission about just when it would issue its financial statement for 2000. Finally it could stall no more and on Apr. 17 released the report. It was a devastating read. The accountants were hanging tough, issuing a warning to shareholders that unless Warnaco's bankers were willing to permanently amend the covenants or the company could refinance all of its debt, Warnaco would no longer be a "going concern." Auditors also reclassified \$1.5 billion of debt as current liabilities."

Forbes

May 14, 2001

Headline: End Game for Linda Wachner Warnaco is teetering on the brink of bankruptcy, and its bankers are calling the shots. It's almost certain to be an expected boon for Calvin Klein.

Byline: Phyllis Berman

#### 205. Waste Management, Inc.

06/11/1998 to 11/09/1999

Whistleblower: Firm

Troubled Waste Management brings in a new CEO to resolve poor performance and controls. Four months into the job, the new CEO announces that quarterly performance is declining and that a complete review of the company with a strategic plan will be announced the following month. Two weeks later, the new CEO leaves Waste to return to former employer. It is later revealed that Waste revenue would further diminish as the company took non-recurring revenue to sustain earnings. Waste settles for \$220 million.

#### 206. Waste Management, Inc.

05/25/1995 to 10/30/1999

Whistleblower: Firm

Waste Management discloses that it misses projections by \$250 million with the claim that they mis-read the signals of decreased demand. Management fails to reveal that the much-touted integration with USA Waste and the price increase that quarter was resulting in customer attrition. During the class period, 3 executives sell \$57 million worth of stock and are later charged by the

SEC. A second set of improprieties are later combined into a suit that settles for \$457 million.

**207. Waste Management, Inc.**

06/11/1998 to 11/09/1999

Whistleblower: Firm

Triggered by the \$250 million shortfall and by the class action suits concerning insider trading, Waste Management's board fires two executives, and soon thereafter the CEO, and conducts a massive investigation of accounting irregularities. Over 1,000 hired accountants tabulate \$1.2 billion in charges necessary to correct, primarily, over-valued fixed assets and accounts receivable. The SEC conducts a full investigation, and Waste Management settles for \$457 million, in conjunction with a set of prior suits regarding insider trading.

**208. Westar Energy, Inc.: Common Stock and Western Resources Capital I Cumulative Quarterly Income**

03/29/2001 to 12/26/2002



Whistleblower: Industry regulator

The Kansas Corporation Commission, the utility regulator, expresses concern that Westar has loaded too much non-utility, venture debt on its core electricity operations. The regulator halts plans by the CEO to sell off assets of the firm to a private company which, it is later revealed, he would own. The CEO is found guilty of fraud and money laundering. Westar settles shareholder claims for \$33 million.

“The Kansas Corporation Commission ...concluded that Westar has tried to allocate too much of its debt to its electric operations and should be forced to put those operations into a subsidiary.”

Associated Press Newswires

September 27, 2002

Headline: KCC May Distance Westar Executives from Utilities

Byline: John Hanna

“Last year, Westar attempted to spin off Westar Industries into a separate company to facilitate a \$4.4 billion plan to sell its utility assets to Public Service Company of New Mexico. That touched off the investigation by the commission, which ruled that the plan would give away valuable assets while leaving Kansas electric customers stuck with the debt that was used to purchase those assets.”

The Wichita Eagle

November 9, 2002

Headline: Kansas Regulators Order Reorganization of Westar Energy.

Byline: Dion Lefler, The Wichita Eagle, Kan.

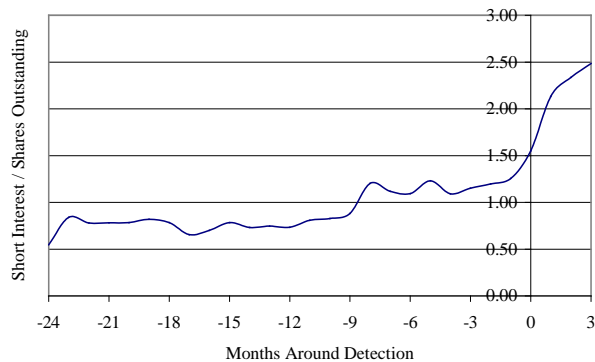
**209. Winn-Dixie Stores, Inc.**

10/09/2002 to 01/29/2004

Whistleblower: Firm – reclassified as shortseller based on short interest

Ten days after stating that the firm would continue its dividend, Winn-Dixie announces that it would indefinitely cut its dividend, would take a large quarterly loss, and was suffering from inability to manage costs in light of new competition from Wal-Mart and other chains. Winn-Dixie goes into bankruptcy. The bankruptcy court stay on the class action discovery was lifted in 2007.

## WINN-DIXIE



### 210. Winstar

04/02/2000 to 04/02/2001



Whistleblower: Short seller

Short sellers raise concerns about Winstar accounting prior to company delay in filing of its 10-K and subsequent defaults on debt. Partial settlement of \$12 million and CSFB, whose analysts touted stock, pay \$8 million.

“Winstar Communications, Inc. (Nasdaq: WCII \$11-1/4) recently proclaimed its comfort with estimates of 2001 EBITDA approaching \$30 million, and stated that it had further credit available from equipment vendors. Winstar insinuated that these developments materially improved its chance of being able to service its debts. We strongly disagree with this conclusion and find Winstar's insinuations misleading. ... We also believe that Winstar's EBITDA is questionable due to aggressive expense capitalization, asset inflation and revenue recognition from non-core businesses and sales of equipment and services to related parties. Winstar's losses would be increased by any adjustments investors deem necessary to correct for these highly significant revenue recognition and expense capitalized issues.)”

PR Newswire

March 8, 2001 – 08:30 AM

Headline: Asensio & Company: Winstar Has No Free Cash Flow or Other Ability to Service Its Debts

### 211. Worldcom

04/30/1999 to 04/29/2002

Whistleblower: SEC

After a failed merger and a drop in the stock price, board agrees to loan CEO Ebbers \$366 million to avoid massive share sale. This prompts wide-ranging SEC investigation including questions about company accounting. In the shadow of this pressure, Cynthia Cooper surfaces documents indicating that fraud is widespread and communicates these to the board. Company settles shareholder suit for \$6.1 billion, company settles with SEC for \$750 million and officers settle for \$13.8 million.

“Still, the heat on Ebbers is rising. The SEC inquiry was prompted in part by WorldCom's decision to loan Ebbers \$366 million to pay off margin debt so that he wouldn't have to sell his 17 million shares of WorldCom stock. Ebbers has said he will sell personal investments to repay the money, although it's unclear how quickly he can unload his assets (page 90). The commission is looking into the terms of that loan, as well as 23 other matters, including the commissions paid to 14 fired sales reps and possible revenue inflation. “There will be no under-the-table deal to settle this inquiry,” says one Big Five partner who has worked on WorldCom. “Every dollar of revenue that agency finds WorldCom never really received will have to be restated.” Most dangerous may be the SEC's questions about WorldCom's acquisition accounting. The company has said that it plans to write off as much as \$20 billion of its \$50 billion in goodwill because of declines in the value of companies it purchased. But some experts, including Baruch College accounting professor Douglas Carmichael, say the charge could be much higher because telecom companies have been hammered recently. If the SEC forces the company to take a charge exceeding \$45 billion, WorldCom could lose access to the \$8 billion bank credit line it's counting on as a cushion to carry it through the tight times ahead. A WorldCom spokesman says that's highly unlikely.”

Business Week

May 6, 2002

Headline: Woe is WorldCom The Vultures are Circling. Can Bernie Ebbers Ward Them Off?

Byline: Charles Haddad with Steve Rosenbush

### 212. Xcel Energy, Inc.



01/31/2001 to 07/26/2002



Whistleblower: Industry regulator

The SEC and energy regulator's informal probes into the round-trip trades of Xcel force the firm to disclose to analysts the distressed nature of their energy trading division and that the firm had cross-collateralized the loans made to the trading unit. When the round-trip trades investigations comes to the fore, Xcel hires a new auditor to replace Arthur Andersen, lowers the prior two years financials by \$3 billion to reflect proper revenue recognition and closes its energy unit with a \$2 billion write off. Xcel settles shareholder suits for \$88 million.

“Xcel and its Public Service Company of Colorado utility subsidiary have received subpoenas from the Commodity Futures Trading Commission for information on so-called "round-trip" trades, or offsetting deals to buy and sell energy, Xcel said in its earnings release. Xcel said Friday that it has also received a subpoena from the Securities and Exchange Commission for information on such trades with Reliant Resources, for much of that time a unit of Reliant Energy (REI), from Jan. 1, 1999 to the present. The company said the SEC subpoena is pursuant to a formal order of private investigation that doesn't name Xcel.”

Dow Jones Energy Service

July 26, 2002

Headline: Xcel CEO: Financial Commitment to NRG Will Be “Limited”

Byline: Jon Kamp

### 213. Xerox Corporation

02/17/1998 to 06/28/2002

Whistleblower: Firm

Xerox's new CEO announces that certain isolated irregularities exist in Xerox's Mexico accounting. The Mexico accounts fail to reflect the extent of liabilities and fail to expense uncollectible receivables. Two prior years of earnings are adjusted downward by \$400 million and an SEC investigation ensues.

### 214. Xerox Corporation

02/17/1998 to 06/28/2002



Whistleblower: Employee

A former employee sues Xerox for wrongful termination after he reports more systematic accounting irregularities following Xerox's isolated accounting scandal in Mexico. In particular, the firm improperly books lease payments to current revenues and does not expense bad debts. The SEC begins an investigation, after which the firm restates earnings for four years and pays a fine of \$10 million.

“Former Xerox Corp. officials in Mexico say executives at the copier titan's U.S. headquarters ignored early warning signs about accounting problems in that country and instead intensified pressure to meet profit goals. The assertions support allegations from James F. Bingham, an assistant treasurer at Xerox, who says in a lawsuit that he was fired last year for reporting accounting irregularities. Xerox says Mr. Bingham's allegations were presented to directors and auditors and found to be "without merit.”

The Wall Street Journal

February 9, 2001

Headline: Former Xerox Officials in Mexico Assert Headquarters Ignored Fiscal Warnings

Byline: John Hechinger and James Bandler

“In June, Xerox acknowledged that it had uncovered serious accounting improprieties in its Mexican businesses, and a former financial employee is now accusing the company of "significant accounting and financial reporting irregularities" in other countries as well. In July, according to his lawsuit, Mr. Bingham prepared a memorandum "outlining what he believed were significant accounting and financial irregularities" at Xerox.”

The New York Times

February 9, 2001

Headline: Xerox Facing New Pressures Over Auditing

Byline: Claudia H. Deutsch and Reed Abelson

### 215. Xerox Corporation

10/22/1998 to 10/07/1999

Whistleblower: Firm

The restructuring plan of Xerox's new CEO not only fails to lift margins, but enables the firm to cloud the falling demand for its product. By the time the firm announces the shortfall in sales, insiders will have sold \$52 million in company stock during the

year class period. The CEO resigns.

**216. XL Capital Ltd.**

11/01/2001 to 10/16/2003

Whistleblower: Firm

Calling the period "among the worst" ever for casualty insurers, the CEO of XL Capital discloses the inadequacy of reserves in their newly acquired NAC Re segment. In addition to not maintaining adequate reserves, the firm fails to disclose that the reserve adjustment of \$184 million is only a fourth of the under-reserved position for the segment, which should have been known to the firm two years prior after the World Trade Center exposure to re-insurance.