

\$236 Billion in Shareholder Losses in 20 Corporations Under Government Investigation

This examination of companies under investigation by the Securities and Exchange Commission, Department of Justice or Federal Energy Regulatory Commission found that the total shareholder value in 20 corporations has been eroded by a total of \$236 billion since government investigations became public or companies admitted financial mismanagement through restatements or announcements of internal probes.

Company	Date Public Learned About Fraud or Investigation	Reason Selected and Investigation Information	Share Price on Column 2 Date	Share Price on Sept. 3, 2002	Share Loss	Outstanding Shares (Millions)	Value Lost (Millions)
Adelphia	27-Mar-02	Adelphia announced \$2.3 billion in off balance sheet debt; SEC began investigation in April 2002 into allegations that the company overstated results by inflating capital expenses and hiding debt. ¹	\$20.89	\$0.16	\$20.73	186	\$3,856
CMS Energy	10-May-02	CMS Energy announced SEC inquiry into “round trip” energy swap practices after an internal review found that CMS had artificially inflated its revenues and expenses by more than \$4.4 billion from May 2000 through mid-January 2002. ²	\$19.97	\$10.18	\$9.79	133	\$1,302
Duke Energy	7-Jun-02	Duke announced SEC probe into \$1 billion of “round-trip” energy trades to boost revenues. ³	\$22.80	\$20.08	\$2.72	31	\$84
Dynegy	08-May-02	Dynegy announced formal SEC investigation into accounting of energy trades. ⁴	\$10.60	\$2.17	\$8.43	272	\$2,293
El Paso	07-Jun-02	El Paso announced SEC investigation into “round trip” energy trades. ⁵	\$22.10	\$15.78	\$6.32	584	\$3,691
Enron	16-Oct-01	Enron reported a \$618 million third-quarter loss and disclosed a \$1.2 billion reduction in shareholder equity, partly related to partnerships run by CFO Andrew Fastow. ⁶	\$33.84	\$0.19	\$33.65	743	\$25,002

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Global Crossing	08-Feb-02	Global Crossing announced it is subject of SEC probe into accounting practices; company allegedly engaged in network capacity “swaps” with other carriers to inflate revenue. ⁷	\$0.07	\$0.059	\$0.01	888	\$10.6
Halliburton	28-May-02	Halliburton announced SEC investigation into whether company booked \$100 million in annual construction cost overruns before customers agreed to pay for them. ⁸	\$19.50	\$13.71	\$5.79	436	\$2,524
Hanover Compressor	26-Feb-02	Hannover restated \$37.7 million in revenues and \$7.5 in net income and announced SEC request for information. ⁹	\$13.25	\$10.38	\$2.87	79	\$227
Homestore	21-Dec-01	Homestore announced internal investigation into accounting practices. SEC investigating if company inflated sales by improperly booking some transactions as revenues. ¹⁰	\$3.30	\$0.53	\$2.77	117	\$324
Kmart	25-Jan-02	Kmart announced internal and SEC investigations into accounting practices to determine if financial statements were intended to mislead investors. ¹¹	\$0.87	\$0.63	\$0.24	502	\$120
Lucent Technologies	21-Nov-00	Lucent announced internal probe in accounting practices; it filed restatement that reduced 2001 revenues by nearly \$700 million in December 2000. ¹²	\$18.00	\$1.83	16.17	3,430	\$55,463
Network Associates	26-Mar-02	Network Associates announced a massive revenue and profit shortfall and it changed how it recognized some revenues; three top executives resigned. ¹³	\$20.70	\$13.00	\$7.70	148	\$1,140
Peregrine Systems	01-May-02	Peregrine delayed fiscal year reporting; announced internal investigation into accounting irregularities; CEO Stephen Gardner and CFO Matthew Gless resigned; said it would restate results for the last three years and reduce reported revenue by about \$250 million. ¹⁴	\$3.45	\$0.27	\$3.18	193	\$614

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PNC Bank	28-Jan-02	PNC restated 4th quarter financial results, cutting 2001 income by \$155 million. SEC found that PNC improperly transferred \$762 million in loans and assets. ¹⁵	\$62.25	\$44.33	\$17.92	284	\$5,089
Qwest Communications	11-Feb-02	Qwest announced SEC subpoena related to inflated revenue created by network capacity “swaps”; SEC also looking at accounting for long-term deals. ¹⁶	\$9.00	\$3.18	\$5.82	1,676	\$9,754
Reliant Energy	05-Apr-02	Reliant announced informal SEC investigation into earnings restatement; SEC investigating “round trip” energy trades. ¹⁷	\$24.90	\$11.85	\$13.05	304	\$3,967
Tyco	02-Jan-02	Media reports of investigation into company accounting; SEC investigating merger accounting and CEO Dennis Kozlowski’s use of company funds. ¹⁸	\$57.25	\$15.03	\$42.22	1,995	\$84,229
WorldCom	11-Mar-02	WorldCom announced SEC inquiry into accounting policies; SEC later alleges that cash flow was overstated by booking \$3.8 billion in operating expenses as capital expenses. ¹⁹	\$9.18	\$0.11	\$9.07	2,962	\$26,865
Xerox	29-Jun-00	Xerox announced SEC investigation into its Mexico operations accounting; SEC also filed civil suit in April 2002 against Xerox for misstating four years worth of profits totaling \$3 billion. ²⁰	\$20.00	\$6.53	\$13.47	730	\$9,833
Totals							\$236,389

Methodology

The total value erased cannot be entirely attributed to corporate fraud or a lack of investor confidence due to charges of corporate malfeasance. Indeed, many stocks were in a downward spiral because of worsening economic conditions or the stock market “bubble.”

At the same time, the figures represent conservative estimates in that they do not cover the time when fraud was actually occurring. For example, the date chosen as when the public first learned of corporate crime at Enron is October 16, 2001, the date it posted a \$618 million third-quarter loss and disclosed a \$1.2 billion reduction in shareholder equity, partly related to partnerships run by CFO Andrew Fastow. Even though it is alleged that Enron cooked the books for years prior, which helped the stocks reach levels as high as \$90 per share, the public was unaware of the mismanagement and these early dates (and high stock prices) were not used in the analysis.

In fact, the dates chosen to begin calculating the cost of corporate fraud in terms of shareholder value lost represent the time when the public was first made aware of allegations of mismanagement or outright fraud. This was compiled from company press releases, media reports and SEC filings.

Overall, the companies in this study lost a collective \$254 billion from their 52-week high to the time when the public first learned about possible corporate fraud. And while the Dow has lost 17.5 percent of its value and NASDAQ is down 38.7 percent since the start of 2002, the share prices of five companies fell by more than 90 percent – and the value of 13 company stocks has been cut by half – since the public learned about investigations into fraud or abuse. The median stock value lost by the 20 companies is 52 percent.

The total shareholder value erased was calculated by using a company’s stock price on the date that a government investigation was announced or when a company admitted that mismanagement occurred and then using the current price (on September 3, 2002) to compute the change in stock value. This amount was multiplied by the number of outstanding shares to establish the total shareholder value lost. The amount of shareholder value lost since 2001 was determined by finding the difference between a company’s stock price on January 2, 2001 (the start of trading) and the stock price on September 3, 2002. This value also was multiplied by the number of outstanding shares.

Endnotes

¹ SEC Complaint Against Adelphia Communications; and Jon Friedman, “Ex-Adelphia CEO, 4 Others Arrested; Government Alleges Fraud,” *CBS.MarketWatch.com*, July 24, 2002.

² “CMS Energy To Cooperate With Informal SEC Inquiry,” CMS Energy Press Release, May 10, 2002.

³ “Duke Energy Clarifies SEC Data Request,” Duke Energy Press Release, June 7, 2002.

⁴ “SEC Probes Dynegy Deal: Energy Trader Says Agency Has Notified It of Investigation into ‘Project Alpha’ Natural Gas Deal,” *CNNmoney*, May 8, 2002.

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- ⁵ “El Paso Corporation Receives Data Request From SEC,” El Paso Corporation Press Release, June 7, 2002.
- ⁶ “Timeline of Enron’s Collapse,” *The Washington Post*, February 25, 2002.
- ⁷ “Global Crossing Reports it is Subject of SEC Investigation,” Global Crossing Press Release, February 8, 2002.
- ⁸ “Halliburton Reports SEC Investigation of Accounting Practice,” Halliburton Press Release, May 28, 2002.
- ⁹ “Hanover Compressor to Restate Results For Year Ended December 31,2000 and For the Nine Months Ended September 30, 2001; Economic Value Of Affected Assets Expected to Be Realized Through Future Operations,” Hanover Press Release, February 26, 2002.
- ¹⁰ Elizabeth Hayes, “Homestore Reviewing Its Accounts,” *Bloomberg News*, December 22, 2001.
- ¹¹ “Kmart Corporation Conducting Internal Investigation; Cooperating with Securities and Exchange Commission,” Kmart Co. Press Release, January 25, 2002.
- ¹² “Lucent Technologies identifies revenue issue from fourth fiscal quarter 2000,” Lucent Technologies Press Release, November 21, 2000; and Craig Matsumoto, “Lucent Takes \$700M Hit,” *EE Times*, December 22, 2000.
- ¹³ Brian Bergstein, “Network Associates Stock Falls,” *Associated Press*, March 26, 2002.
- ¹⁴ David Streitfeld, “Losing a Virtual Fortune: The Tech Community Is Quietly Awash In Its Own Accounting Scandals,” *Los Angeles Times*, May 2, 2002; and Jim Ericson, “Big Trouble at Peregrine,” *Line56*, May 6, 2002.
- ¹⁵ “PNC Revises 2001 Financial Results and Reaffirms 2002 Estimates,” PNC Bank Press Release, January 29, 2002; and SEC Administrative Proceeding Against PNC Bank, July 18, 2002.
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- ¹⁸ “New SEC Data on Tyco – What Should We Think Now,” *SEC Insight*, January 2, 2002.
- ¹⁹ “WorldCom Receives SEC Inquiry,” WorldCom Press Release, March 11, 2002; and “WorldCom Milestones,” *The Washington Post*, August 9, 2002.
- ²⁰ “Xerox Announces Commencement of SEC Investigation,” Xerox Co. Press Release, June 29, 2000.