# WORLDWIDE CORPORATE SCAMS

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# Fannie Mae Accounting Scandal

The United States Federal Government created the Federal National Mortgage Association (FNMA), commonly known asFannie Mae, in 1938 to establish a secondary market for mortgages insured by the Federal Housing Administration (FHA).

Fannie Mae buys mortgages on the secondary market, pools them and sells them as mortgage-backed securities to investors on the open market

This secondary mortgage market helps to replenish the supply of lendable money for mortgages and ensures that money continues to be available for new home purchases.

In 1968, the Federal National Mortgage Association was partitioned into two separate entities-one wholly owned by the government and known as the Government National Mortgage Association (Ginnie Mae), and the other to retain the name Federal National Mortgage Association (Fannie Mae).

Fannie Mae is a consistently profitable American corporation. While it receives no direct government funding or backing it has certain looser restrictions placed on its activities than normal financial institutions. For example, it is allowed to sell mortgage backed securities with half the capital backing them up than is required by other financial institutions.

In 2004, Fannie Mae came under fire for its accounting practices, prompting an investigation into the Fannie Mae Accounting Scandal. The Office of Federal Housing Enterprise Oversight released a report on September 17 alleging widespread accounting errors, including shifting of losses so senior executives could earn bonuses from making earnings targets.

The difficulty centered on how to account for various interest rate hedges Fannie Mae buys as part of its risk management strategy. When Fannie Mae did not release its third quarter results for 2004, doubts increased.

Supporters of the company, including senior management, said the problem was merely a disagreement over FASB accounting standards, but in December, the Securities and Exchange Commission ruled that Fannie Mae would have to restate the past 3 1/2 years of earnings, potentially losing $9 billion of earnings over that timeframe, and possibly necessitating increased capitalization.

This has not yet impacted the stock price for Fannie Mae, but Moody's and Standard and Poor's have downgraded some of Fannie Mae's subordinate debt. Given the large percentage of the American economy that is tied up in housing values, a major scandal involving Fannie Mae could be highly damaging to investor confidence.

However, Freddie Mac was able to overcome its summer 2003 scandal without serious damage.

In December 2004, CEO Franklin Raines and CFO Timothy Howard were forced to resign. The company also dismissed its auditor, KPMG.

In testimony given to the U.S. Senate Banking Committee in April 2005, it became clear that Congress, with support from all the parties, was planning to strengthen oversight of all the GSEs.

A contentious issue in the second quarter of 2005 was whether the retained portfolios of Fannie and Freddie should be reduced.

This issue became prominent after an April AEI symposium, and continued to gain ground leading up to Alan Greenspan's major May 19, 2005 speech recommending strict portfolio limits

## XEROX ACCOUNTING SCANDAL

erox Corporation is the world's largest supplier of toner-based photocopier machines and associated supplies.

On April 11, 2002, the Securities and Exchange Commission filed a complaint against Xerox. The complaint alleged Xerox deceived the public between 1997 and 2000 by employing several "accounting maneuvers," the most significant of which was a change in when Xerox recorded revenue from copy machine leases - recognizing a "sale" in the period a lease contract was signed, instead of recognizing revenue ratably over the entire length of the contract.

The issue was when the revenue was recognized, not the validity of the revenue.Xerox's restatement only changed what year the revenue was stated.

Prior to 1997, Xerox had recognized revenue from equipment rentals, or leases, as required by U.S. generally accepted accounting principles.

The U.S. GAAP prohibits companies from recognizing the entire proceeds of the sale of equipment unless certain criteria are met, such as transfer of ownership. If none of the criteria are met, the "sale" is considered a lease, and only the rental payments owed to the company in the current period can be treated as revenue in the current period.

The SEC charged that the change in how Xerox applied accounting principles not only violated GAAP, but was intentionally designed to fool Wall Street into believing the new management team was working wonders, exceeding Wall Street's expectations nearly every quarter from 1997 through 1999.

The SEC further charged that the accounting irregularities increased fiscal year 1997 pretax earnings by $405 million, 1998 pretax earnings by $655 million, and 1999 pretax earnings by $511 million (in each quarter of each year, earnings were inflated just enough to exceed the Wall Street's First Call Consensus EPS).

The SEC also alleged that Xerox's senior management was aware of, either by directing or approving, the accounting actions that were taken for the purpose of what management called "closing the gap" to meet revenue and profit goals.

When Xerox's auditors, KPMG, questioned the legitimacy of the company's accounting practices, senior management requested that a new partner be assigned to its account. In order to keep the relationship with Xerox that had lasted nearly 40 years, and to protect the $82 million in audit and non-audit fees KPMG would collect from Xerox between 1997 and 2000, KPMG complied with management's request.

Of course the deception employed by Xerox's management soon came to light. The "accounting tricks" employed by Xerox were a double-edged sword: by accelerating future revenues into present periods, it became increasingly difficult for management to meet investors' expectations in future periods, especially as the economy began to worsen in 1999 and later years.

In response to the SEC's complaint, Xerox Corporation agreed to pay a $10 million penalty and to restate its financial results for the years 1997 through 2000. On June 5, 2003, six Xerox senior executives accused of securities fraud, including its former chief executive officer, Paul A. Allaire and G. Richard Thoman, and its former chief financial officer, Barry D. Romeril, agreed to pay $22 million in penalties, disgorgement, and interest.

On January 29, 2003, the SEC filed a complaint against Xerox's auditors, KPMG, alleging four partners in the "Big Five" accounting firm, Michael A. Conway, Joseph T. Boyle, Anthony P. Dolanski, and Ronald A. Safran, permitted Xerox to "cook the books" to fill a $3 billion "gap" in revenue and $1.4 billion "gap" in pre-tax earnings. As noted in the complaint: "There was no watchdog at Xerox. KPMG's bark sounded no warning to investors; its bite was toothless."

In April 2005 KPMG settled with the SEC by paying a $22.48 million fine. As part of the settlement KPMG neither admits nor denies wrongdoing.

Xerox ModiCorp, recently renamed Xerox India , has been investigated for making "improper payments" in order to obtain government orders.

During settlement with the Securities and Exchange Commission, Xerox began to revamp itself once more.

As a symbol of this transformation, the relative size of the word "Xerox" was increased in proportion to "The Document Company" on the corporate signature and the latter was dropped altogether in September 2004, along with the digital X.

However, the digital X and "The Document Company" are still used by Fuji Xerox.

## MERCK ACCOUNTING SCANDALS

Concerns about the FDA's lack of oversight in the Marck Scandal jumped in 2004 when a leading FDA scientist, Dr. David Graham, acknowledged that Merck's arthritis drugVioxx caused as many as 139,000 heart attacks, strokes and deaths.

Testifying before the Senate, Graham charged that Vioxx had killed between 28,000 and 55,000 people since the FDA placed it on a fast track for approval in 1999. The FDA approval came despite reports that Vioxx carried a high risk for heart attack and stroke.

Internal Merck documents reveal that the company has known about the dangers of Vioxx for several years but suppressed the data and marketed it aggressively.

The FDA jumped to Merck's defense and denounced Graham as "irresponsible" and his opinions as "junk science." Previously, Graham said the agency suppressed his findings of increased risks after he reviewed 1.4 million patient records from Kaiser Permanente health care systems, showing that heart attack rates were five times higher with Vioxx, when compared to another drug.

Graham announced that he was facing pressure from FDA officials to move out of drug safety into an administrative role, which would sidetrack him from criticizing FDA enforcement procedures. Graham warned that the FDA has abandoned its watchdog role in favor of a cozy relationship with the pharmaceutical industry and that the public can no longer expect government protection from deadly medications.

The pharmaceutical industry has given over $38 million to the Republican Party since the 2000 election cycle, according to the Center for Responsive Politics.

Curt Furberg, a professor at Wake Forest University, publicly questioned the safety of Pfizer's Bextrawas and was also removed from an FDA advisory panel which was set to review the safety of COX-2 inhibitors. A University of Pennsylvania study indicated that Bextra doubles patient risk for heart attack and stroke. Furberg said FDA informed him that he would no longer participate in a committee meeting next year to review the safety of COX-2 inhibitors, including Bextra, Pfizer's Celebrex and Merck's Vioxx. This came on the heels of his quote in the New York Times where he said Bextra appeared to have similar risks as Vioxx - which was withdrawn from the market in September for safety reasons and Pfizer tried to conceal that information.

In 2004, the FDA failed to meet 70 percent of their own benchmarks for proposed rulemaking, final deadlines and reaching decisions on petitions with deadly consequences. For example, in October 2003, the FDA announced they would issue warnings about the risks and fatal side effects of a toxic heart drug, Cordarone.

After over a thousand deaths and thousands of severe medical complications, The FDA asked the drugs manufacturer, Wyeth, to write their own regulations.

The lack of FDA enforcement is consistent with Bush's policy of allowing corporations to regulate themselves.

## THE PARMALAT SCANDAL

*Parmalat SpA*, an Italian dairy and food company and Europe's biggest dairy company, was declared bankrupt in late 2003.

Its worldwide operations include almost 140 production centers. Over *36,000* workers around the world collect Parmalat pay packets, and 5,000 Italian dairy farms are dependent on the company for the bulk of their business.

At the end of 2003, one of the *biggest corporate accounting scandals* in history came to light as a *8 billion euro* hole was discovered in Parmalat's accounting records.

In 1999, Parmalat set up a subsidiary in the Cayman Islands called Bonlat.

The first indication of financial problems came in early 2003 as the company tried to sell 500 million euro in bonds. After this CFO Fausto Tonna resigned in March replaced by Alberto Ferraris.

The crisis became public in November as the *Parmalat Scandal*. Questions were raised about transactions with mutual fund Epicurum, another Cayman-based company linked to Parmalat causing its stock to plummet.

Ferraris resigned less than a week later replaced by Luciano Del Soldato.

In December, Del Soldato resigned, unable to get cash from Epicurum fund, needed to pay debts and make bond payments.

Enrico Bondi was called in to help the company. Tanzi himself resigned as chairman and CEO. Parmalat's bank, Bank of America, then released a document showing *3.95*billion euros in Bonlat's bank account as a *forgery*.

Prime Minister Silvio Berlusconi initiated a *Fraud investigation* and appointed Bondi to administer the company's rescue.

Calisto Tanzi, once a symbol of unlimited success, was detained hours after the firm was declared officially insolvent and eventually charged with *financial fraud and money laundering*.

Italians were shocked that such a vast and established empire could crumble so quickly.

Among the questionable accounting practices with which Parmalat dressed up its books: it sold itself credit linked notes, in effect *placing a bet on its own credit*worthiness in order to conjure up an asset out of thin air.

After his arrest, Tanzi reportedly *admitted* during questioning at Milan 's San Vittore prison, that he diverted funds from Parmalat into Parmatour and elsewhere.

The family football and tourism enterprises were financial disasters; as well as Tanzi's attempt to rival Berlusconi (another rags-to-riches Italian success story) by buying Odeon TV, only to sell it at a loss of about 45 million euro.

## ARTHUR ANDERSON ACCOUNTING SCANDAL

*Arthur Andersen realized, before the rest of the Big Five, that business consulting was a very lucrative business.*

*In 1989, Arthur Andersenand Andersen Consultingbecame separate units of Andersen Worldwide.Andersen began using its accounting services as a springboard to sign up clients for Andersen Consulting's more lucrative business.*

Arthur Andersen and Andersen Consulting spent the 1990s in a bitter dispute. The Andersen Consulting group saw a enormous growth in profits during 90's from the business it was receiving from Arthur Andersen.

However, the consultants at Andersen Consulting felt they were being underpaid for the work they were doing. In 2000 an international arbitrator granted Andersen Consulting its independence.

As a result, in 2001, Andersen Consulting was forced to change its name to Accenture. Accenture agreed to pay $1.2 billion in past payments to the Arthur Andersen firm.

Accounts vary on why the split occurred — executives on both sides of the split citedgreed and arrogance on the part of the other side.

Executives with Andersen Consulting maintained breach of contract when Arthur Andersen created a second consulting group, AABC (Arthur Andersen Business Consulting) which began to compete directly with AC in the marketplace.

In 2002, Andersen was convicted of witness tampering for shredding documents related to its audit of Enron. Since the Securities and Exchange Commission does not allow convicted felons to audit public companies, the firm agreed to surrender its licenses and its right to practice.

In 2005, the Supreme Court of the United States unanimously overturned Andersen's conviction due to flaws in the jury instructions.

In the court's view, the instructions allowed the jury to convict Andersen without proving that the firm knew it broke the law or that there was a link to any official proceeding that prohibited the destruction of documents.

The opinion was also highly skeptical of the government's definition of "corrupt persuasion"--persuasion with an improper purpose even without knowing an act is unlawful.

Despite this ruling, it is highly unlikely Andersen will ever return as a viable business.

The firm lost nearly all of its clients when it was indicted, and there are over 100 civil suits pending against the firm related to its audits of Enron and other companies.

It began winding down its American operations after the indictment. From a high of28,000 employees in the US and 85,000 worldwide, the firm is now down to around200 based primarily in Chicago. Most of their attention is on handling the lawsuits.

Richard Scrushy HealthSouth Corporation Scandal

*HealthSouth Corporation is based in Birmingham, Alabama, and is one of americas largest healthcare services providers.*

*The HealthSouth Corporation is perhaps Best known for its rehabilitation services. The HealthSouth Corporation has more than 1,900 facilities in the united states, Canada, Australia, and Puerto Rico including both in and outpatient rehabilitation facilities and surgery centers*

*The HealthSouth Corporation owns more than 330 hospitals worldwide. In 2003,HealthSouth corporation's CEO Richard M. Scrushy, directed company employees to falsely report grossly exaggerated company earnings in order to meet stockholder expectations.*

*This Began what was latter to be termed the Richard Scrushy HealthSouth Corporation scandal.*

*In March, 2003 HealthSouth and its founder and CEO Richard M. Scrushy were investigated by the Securities Exchange Commission (SEC) of an accounting scandal in which the compnay's earnings were falsely inflated by $1.4 billion.*

*In 1986, the Richard Scrushy HealthSouth Corporation scandal began when Richard Scrushy instructed HealthSouth's senior officers and accountants to falsify company earning reports in order to meet investor expectations and control the price of the company's stock.*

*In some years the company's income was overstated by as much as 4700 percent. The inflated $1.4 billion represents more than 10 percent of the company's total assets.*

*In 2003 Richard Scrushy was accused of fraud by the Securities Exchange Commission (SEC) for directing HealthSouth's officers to falsify financial records. Scrushy is the first CEO to be charged under the 2002 Sarbanes-Oxley Act.*

*He was fired by HealthSouth's board in the wake of the Richard Scrushy HealthSouth Corporation scandal and many of his assets were seized by Federal investigators. He is currently standing trial on 36 counts of fraud and conspiracy.*

## KPMG ACCOUNTING SCANDAL

KPMG (Klynveld, Peat, Marwick and Goerdeler) is well known as one of the top 4 accounting firms in the world, "the Big 4"as they are known.

Before the scandal of Arthur Anderson there were known as the big 5.

KPMG Accounting employs over 100,000 people in 148 different countries.

Following in Arthur Andersons footsteps KMPG is now coming to grips with its own ***KPMG Accounting Scandal***.

In 2003, KPMG was under investigation by the U.S. attorneys' office for accounting frad. Now two years later, KPMG has agreed to pay $456 Million to avoid an indictment from the US Department of Justice.

KPMG admitted to setting up fake tax shelters for it's wealthiest clients, which helped them evade paying $2.5 Billion in tax dollars throughout the 1990's. If that wasn't enough, KMPG was accused with the obstruction of justice as investigators tried to piece together the facts of the accounting scandal.

In the face of yet another accounting scandal, by one of the remaining, "Big 4", we see a high profile company getting away with a mere slap on the wrist. KPMG's clients save

2.5 Billion in taxes, in exchange for the firms $456 Million settlement.U.S. Justice Department officials claimed they did not want to indict the firm under these charges because this would have put many of the firms' employees out of work.

While this may indeed be true, it remains a poor reason, to once again let justice slide and provides little incentive for others to remain honest. In fact, this is a win, winsituation for KPMG!

## COMPUTER ASSOCIATES ACCOUNTING SCANDAL

Computer Associates International, Inc was founded in 1976 by Queens College graduate Charles B Wang along with others including Russell M Artzt.

In 1980 due to its success of a product called "ca-sort", Computer Associates was able to buy a Swiss company by the same name (CA).

Computer Associates was first listed on the New York Stock Exchange in 1981.

In 1990, do to it's rapid expansion, Computer Associatesmoved it headquarters to an attractive tax-free plot of land in Islandia, just north of the Long Island Expressway, in NY.

In 2000, a class-action lawsuit accused founder Charles Wang, co-founder Russell Artzt of wrongly reporting more than $500 million in revenue in its 1998 and 1999 fiscal years, in order to artificially inflate the stock price.

A previous stock option set in 1995 specified that a certain number of shares would vest when CA's shares sustained a target price. The benchmark was met in 1998, and the three executives combined received nearly $1 billion in Computer Associatesstock. Since then, at least four other class-action suits have been filed againstComputer Associates.

In 2002, Charman and CEO Charles Wang retired and was succeeded by his colleague Sanjay Kumar.

In 2004, new management reached a deal with the SEC to pay $225 million in compensation to shareholders victimized by the company's criminal conduct. Former CEO Sanjay Kumar was formally indicted by a grand jury on counts of fraud, and obstruction.

In 2004, IBM executive John Swainson became Computer Associates's CEO Elect.

## AIG SCANDAL

AIG was founded in 1919 by Cornelius Vander Starr in Shanghai , China . Starr was the first Westerner in Shanghai to sell insurance to the Chinese.

AIG owns ILFC, the world's largest aircraft leasing company, with hundreds of aircraft from to Boeing 747-400 .

It also is the world's leading international insurance and financialservices organization, with operations in more than 130 countries and jurisdictions.

AIG member companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer.

In the United States , AIG companies are the largest underwriters of commercial and industrial insurance and AIG American General is a top-ranked life insurer.

In November of 2004 the AIG scandal cost AIG a $US 126 million settlement with the SEC and the Justice Department that resolved the matter in part, but the insurer must still co-operate with investigators who are continuing their probe into the sale of a "non-traditional insurance product".

The settlement was related to a so called "finite insurance" product.

In 2005, after an AIG scandal on insurance and mutual funds the year before, AIG is under investigation for accounting fraud. The company already lost over $58 billion worth of market compensation because of the AIG scandal.

AIG has the fastest decrease in market value since the WorldCom and Enronscandals. Investigations also discovered over a billion US dollars worth of errors in accounting transactions.

One such error involves a supposedly $500 million transaction with Berkshire Hathaway that drastically inflated AIG's revenues. This error involved reinsurance transactions.

Reinsurance supposedly is used only for spreading out risk, but it may also be used for the questionable purpose of polishing a company's financial statements, in the same way the manner of accounting for revenue did for Enron.

In early May 2005, AIG restates financial statements, and issues a reduction in book value of USD $2.7 billion, a 3.3 percent reduction in net worth. AIG's share price fallsdue to conservative investors selling shares.

Future outcome for the company is still pending. The company has aggressively tried to increase shareholder confidence, replacing a significant part of the board of directors with more independent members.

## ENRON ACCOUNTING SCANDAL

Despite constant discussion in the news, what Enron'sbusiness was, and what it did wrong is rarely discussed.

There is such a contrast with most Enron scandal reporting. The financial press discusses the accounting treatment as if that's the core issue, while assuming that laypeople have detailed knowledge of the Enron accounting scandalintricacies.

What really went wrong with the Enron scandal wasn't an issue of spurious accounting so much as a catastrophic failure of a business model. The accounting scandal, of course, was the means by which Enron hid its poor performance, but that's only one of three major issues swirling around the story.

The Enron accounting scandal boils down to three main issues:

1- energy trading is an invalid business model;

2- extremely high-volatility businesses ought not to be publicly traded;

3- lastly, the shared dependence among finance, auditing, and legal providers and their corporate clients, lead to irredeemable agency conflicts.

The last point has been commented on extensively, but it seems that the first two have largely gone unaddressed.

Energy trading as a failed business model is complex, but deals with the opportunities to game the system when only part of the market is deregulated.

Markets don't like risk. Investors hate surprises, and will hammer stock value over small deviations from consensus estimates (which are, it's worth mentioning, just guesses after all). Companies with high volatility must hedge their risk in order to viably participate in equity markets.

Creative markets have devised any number of clever mechanisms for diversifying risks, including such things as insurance, futures, options, and an astonishing array of derivatives.

If a company's core business is in an area of high ongoing volatility that cannot be effectively diversified - it is far better off as a privately held firm, with a close group of investors who understand the risks and can adjust their expected returns accordingly.

For a public company faced with high volatility, the pressure to cook the books to smooth earnings is very high, as we've seen with even quasi-governmental agencies such as Fannie Mae.

Smooth earnings are what the market wants, but is that reasonable? Is the natural profile of corporate performance a steady march to the upper right? If we were in a world where there was no economic cost involved in dissolving companies when their profit trend blipped, perhaps these expectations would be valid.

However, there is significant cost to the company, both in terms of capital availability and employee incentives, when the share price takes a beating. While that threat does provide a powerful motivation for companies to stay on top of their markets, and to deliver the performance necessary to fulfill expectations, the 'no excuses' mentality of the market easily leads to destructive short-term practices. Managers have powerful incentives to hit the numbers no matter the cost, whether it's through layoffs orquestionable accounting.

The point is that the focus shifts from the customer-facing side to the accounting side. Investment in and support of new and existing products suffer as all stops are pulled out to make past investments pay off. Between merciless pressure from markets and increased overhead from compliance with Sarbanes-Oxley, many companies are rethinking the value created from being publicly-traded.

There's a good case to be made for public markets taking the focus off of customers in favor of shareholders. After all, customers are easier to satisfy.

Overview of ENRON scandal

Enron Corporation is an energy trading, natural gas, and electric utilities company based in Houston , Texas that employed around 21,000 people by mid-2001, before it went bankrupt.

Fraudulent accounting techniques allowed it to be listed as the seventh largest company in the United States , and it was expected to dominate the trading it had virtually invented in communications, power, and weather securities.

Instead, it became the largest corporate scandal in history, and became emblematic of institutionalized and well-planned corporate fraud.

Enron cynically and knowingly created the phony California electricity crisis of 2000 and 2001.

There was never a shortage of power in California . Using tape recordings of Enron traders on the phone with California power plants, the film chillingly overhears them asking plant managers to "get a little creative" in shutting down plants for "repairs."

Between 30 percent and 50 percent of California's energy industry was shut down by Enron a great deal of the time, and up to 76 percent at one point, as the company drove the price of electricity higher by nine times.

Its European operations filed for bankruptcy on November 30, 2001, and it sought Chapter 11 protection in the U.S. on December 2.

Enron's global reputation was undermined, by persistent rumors of bribery and political pressure to secure contracts in Central and South America, in Africa, and in the Philippines .

Especially controversial was its $30 billion contract with the Maharashtra State Electricity Board in India , where it is alleged that Enron officials used political connections within the Clinton and Bush administrations to exert pressure on the board. On January 9, 2002, the United States Department of Justice announced it was going to pursue a criminal investigation of the Enron scandal and Congressional hearings began on January 24.

After a series of scandals involving irregular accounting procedures bordering on fraud involving Enron and its accounting firm Arthur Andersen, it stood at the verge of undergoing the largest bankruptcy in history by mid-November 2001. A white knight rescue attempt by a similar, smaller energy company, Dynegy, was not viable.

During 2001, Enron shares fell from US$85 to US$0.30.

As Enron was considered a blue chip stock, this was an unprecedented and disastrous event in the financial world. Enron's plunge occurred after it was revealed that many of its profits and revenue were the result of deals with special purpose entities.

The result of this accounting scandal was that many of the losses that Enron encountered were not reported in its financial statements.

Following the 2001 bankruptcy filing, Enron has been attempting to restructure in order to compensate as many creditors as possible.

Enron's innovative core energy trading business was sold early in the bankruptcy proceedings to Merrill Lynch and Company. A last-ditch survival attempt was made in 2002 through a planned merger with arch-rival Dynegy Corporation. Dynegy backed out during merger talks, acquiring control of Enron's original, predecessor company- Northern Natural Gas- in the process.

Enron is currently pursuing legal action against Dynegy over the takeover of Northern Natural Gas, which has since been sold by Dynegy to MidAmerican Energy Holdings Company.

Enron's final bankruptcy plan provides for the creation of three new businesses to be spun off from Enron as independent, debt-free companies.

The reorganization process commenced in 2003, with the formation of two new Enron subsidiaries, CrossCountry Energy L.L.C., and Prisma Energy International Inc.

SUMMARY OF ENRON

985 - Houston Natural Gas merges with InterNorth to form Enron.

1989 - Enron begins trading natural gas commodities.

Sep 2000 - Enron CEO Kenneth Lay contributes $290,000 to the presidential campaign of George W Bush.

December 2000 - Jeffrey Skilling takes over as chief executive officer. Enron Stock hits 52-week high of $84.87.

Jan 2001 - Enron's Kenneth Lay is made a part George W Bush's transition team.

Jun 2001 - The White House admits that political adviser Karl Rove was involved in administration energy policy meetings. This was at the same time as he was holding stock in energy companies including Enron.

August 2001 - Jeffrey Skilling resigns as Enron's CEO after just six months. Kenneth Lay once again resumes his CEO role.

Oct 2001 - Enron reports a $638 million third-quarter loss and discloses $1.2 billion reduction in the value of shareholders' stake in the company.

Oct 2001 - Enron acknowledges that the Securities and Exchange Commission has begun an inquiry.

Oct 2001 - Enron's CEO Kenneth Lay asks Commerce Secretary Don Evans, to persuade Moody from downgrading Enron's credit rating.

Oct 2001 - Enron announces that the SEC inquiry has been upgraded to a formal investigation.

Nov 2001 - Enron revises financial statements for the previous five years to account for $586 million in losses.

Nov 2001 - Arthur Andersen receives a federal subpoena for Enron documents.

Nov 2001 - Enron stock plunges under $1.

Dec 2001 - Enron files for Chapter 11 bankruptcy.

Dec 2001 - Enron lays off 4,000 employees.

During the '90s Enron pushed the accounting scandal to new levels in an effort to keep their stock price rising. That is what most of the litigation is about right now.

They cooked the books to a smoldering pile of ash with lies, deceit, criminal accounting, conflicted analysts, evidence shredding, and so on.

Enron filed for bankruptcy in October of 2001 because the Wall Street Ratings Firms began hearing of the corruptionand lowered Enron's bond rating over a period of several months to where the company could no longer borrow money, and it's stock became worth pennies.

But a very interesting thing happened for Enron just a year before the Enron Scandal was revealed - deregulation of the Energy Industry - (with the help of VP Dick Cheney). All during the year of the collapse of Enron, the company was making enormous profits.

This company had been grossing 2 to 3 Billion dollars annually until deregulation when they pocketed the $12 Billion surplus the state of California had built up, and put California in $40 Billion of debt with their drummed up energy crisis in the heat of the summer - over $50 Billion from a single state.

Enron perpetrated these schemes in other states and Canada as well, raking in over $100 Billion that somehow has been roundly overlooked by the press. The 4,300 SPEs (Special Purpose Entities - off shore partnerships that were given a small amount of news coverage) were filled with these illegal profits and remain a mystery to the American Public.

A Fortune 500 article published in April, 2002 (six months after Enron filed for bankruptcy filing) moved Enron from the 6th to the 5th spot, estimating the company would gross $138 Billion.That was rather astonishing considering that they were already in Bankruptcy Proceedings!

The big news seemed to be how much money the Execs were paid in stock options and bonuses. Let me assure you, the money that these guys have in American bank accounts is just for their living expenses and lawyers fees. They have billions in the Caymans.

You see, deregulation was still in effect (it still is to some extent) and Enron was still making astronomical profits even AFTER the so-called "collapse of the energy giant". They made enough money in the short span of two years to pay off all of their debt ($30

Billion), to buy back all of their stock at the '98 price ($60 Billion) and get out of bankruptcy proceedings.

But they didn't do that. No, they shoveled all of that money into off-shore accounts in the

Cayman Islands where almost 600 of these SPEs had one single post-office-box business address.

The Cayman Island Government announced in 2002 that it had changed it's banking policy and would divulge information on the off-shore accounts....."But no one has asked".

Skilling said (rather conspicuously) three times in less than five minutes during his testimony to the Sub-Committee - "Enron was disbursing cash".

He wasn't kidding! That was most likely the only truth that came out of his mouth at that hearing and why he still professes that he did not lie.

The mainstream news continues to refer to Enron as the "Bankrupt Energy Giant" (dis-informing the public and keeping them ignorant of the facts).

<u>Energy Regulation and Summary of The Enron Scandal</u>

## ABBOTT LABORATORIES SCAM

In December 2003, the company raised the U.S. price of its anti-AIDS drug Norvir (generic name ritanovir) by 400 percent. That is, unless the product is used inconjunction with other Abbott products - in which case the price increase is zero.

Norvir has become an increasingly important treatment in recent years. Scientists have discovered that while Norvir is generally too toxic for safe use as a protease inhibitor (one category of anti-AIDS drugs), in lower doses it works well as a booster to increase the efficacy of other protease inhibitors. As a result, Norvir is frequently prescribed along with other protease inhibitors.

The Norvir price increase does not apply when the product is used as a booster with another Abbott protease inhibitor (in the combined product Kaletra). Thus the impact of the Norvir price increase is to make Kaletra far cheaper than rival combinations of Norvir and non-Abbott protease inhibitors.

Norvir is especially important for patients in need of a "salvage therapy" of new and powerful treatments because their virus has become resistant to other medicines.

Lynda Dee, co-chair of the Aids Treatment Activists Coalition's Drug Development Committee, called the price increase for these patients, who may have no choice as to the medications they need to survive, "pharma terrorism perpetrated against the patients who need new drugs the most."

Abbott said the price spike was justified by its need to raise money for research and development. "New medicines cost hundreds of millions of dollars to develop," Jeffrey Leiden, president and chief operating officer of Abbott's Pharmaceutical Products Group, told a National Institutes of Health meeting in May. "So it's critical that we capture the value of today's drugs to allow development of these new therapies in our pipeline as quickly as possible."

Moreover, Leiden said, the price increase would not deny any patients access to the drug. The price increase does not apply to federal AIDS drug programs, which cover 54 percent of people with HIV/AIDS. Price increases only apply to private insurers and to uninsured individuals, who Abbott says can get the product for free under a special program it operates.

Making the Abbott price jump especially pernicious in the eyes of consumer advocates was that the drug was invented on a grant from the U.S. federal government.

Because of the U.S. government's financing role, Essential Inventions, Inc., a nonprofit corporation created to distribute affordable public health and other inventions, in January petitioned the government to exercise its "march-in" rights under the federal Bayh-Dole Act and issue an open license to generic firms to produce their own version of Norvir.

"Essential Inventions is asking the Bush Administration to adopt a simple rule - U.S. consumers should not pay more for drugs invented on government grants," said Essential Inventions President James Love. Following the U.S.-only price increase, Norvir is 5 to 10 times more expensive in the United States than in other high-income countries.

But NIH rejected the Essential Inventions proposal, arguing that companies that obtained licenses to government-funded inventions have a duty only to commercialize the inventions. NIH does not have authority to consider the price at which a product is sold and the impact of the price on access, the agency ruled - even though the Bayh-Dole Act says government-funded inventions should be made "available to the public on reasonable terms."

"If Secretary Thompson agrees that quadrupling the price of a life-or-death AIDS drug, rigging the market, and discriminating against U.S. consumers is 'reasonable,' you can't help but wonder what the Secretary considers unreasonable," said Representative Sherrod Brown, D-Ohio, in criticizing the NIH decision.

## AIG SCANDAL

The nation's number one corporate crime buster, New York Attorney General Eliot Spitzer, launched his campaign for higher office in December, announcing that he was running for Governor of New York, the next step in his quest for the presidency.

Spitzer is out to prove that projecting a tough cop image against corporate crime pays dividends — as long as you pull your punches when it comes to settlement time.

When Spitzer announced in November that he was opening a new front against the insurance industry, there was the usual quaking in the boots by the Wall Street Journal and the other lead megaphones for big business, charging Spitzer with using his law enforcement powers to force changes in business practices.

And have no doubt — the corporate lobbies would prefer a do-nothing law enforcement agency to an activist one, even a mildly activist one.

That's why they rail against Spitzer, and even against SEC chair William Donaldson, a former chief executive himself and friend of the Bush family.

Big business now reportedly wants even Donaldson removed from office for his mild activism.

But when push comes to shove, there is no shoving allowed by prosecutors. If you do shove, or push too hard, you will not be allowed to proceed up the political ladder. Period. End of story.

Spitzer sent clear signals when he started his crusade against Merrill Lynch.

Remember the Merrill Lynch analysts who told their customers — trust me, buy this stock, this stock is highly rated?

And then they would turn around and e-mail their buddies — hey, this stock is lousy, why are we recommending this stock to our customers?

Spitzer got his hands on the e-mails, charged Merrill with violating the law and forced them to pay $100 million.

But he got Merrill to pay up only by agreeing not to criminally prosecute the company.

Spitzer later admitted that had he forced Merrill to admit wrongdoing, the firm would have gone kaput.

Just like Arthur Andersen.

In October, 2004 Spitzer moved against a major insurance broker, Marsh & McLennan, alleging that the company steered unsuspecting clients to insurers with whom it had lucrative payoff agreements, and that the firm solicited rigged bids for insurance contracts.

By threatening criminal action, Spitzer forced the company's CEO to resign — and replaced him with a former work colleague.

Major insurance companies — ACE, American International Group, The Hartford and Munich American Risk Partners — were named in the complaint as participants in steering and bid rigging. Other insurance companies are still under investigation.

Here's a prediction — Marsh & McLennan will not be convicted of any wrongdoing. Why? Because Spitzer fears, as he feared in the Merrill case, that forcing a company to admit to guilty would push it to the brink — à la Andersen.

Andersen's conviction sent a powerful message to big business — engage in criminal wrongdoing, and you will be criminally prosecuted to the full extent of the law.

Too powerful, as it turns out.

So, with the Merrill case, Spitzer has started a trend.

Yes, prosecute corporate crime, but don't force companies to admit guilt.

Thus, when the world's largest insurer, American International Group Inc. (AIG), was charged by federal prosecutors with crimes in November, it quickly cut a deal with the Justice Department that ended a criminal probe into its finances with a deferred prosecution agreement.

In a deferred prosecution, the corporation accepts responsibility, agrees not to contest the charges, agrees to cooperate, usually pays a fine and implements changes in corporate structure and governance to prevent future wrongdoing.

If the company abides by the agreement for a period of time, then the prosecutors will drop the criminal charges.

In a non-prosecution agreement — like the one secured by Merrill Lynch's in 2003 with New York Attorney General Eliot Spitzer — prosecutors agree not to bring criminal charges in exchange for corporate fines, cooperation and a change in corporate structure and governance.

“This comprehensive settlement brings finality to the claims raised by the SEC and the Department of Justice,” said AIG Chair M. R. Greenberg. “The role of the independent consultant complements our own transaction review processes. We welcome this enhancement to our overall risk management and control mechanisms.”

“We have always sought to adhere to the highest ethical standards and ensure that we are in compliance with the applicable laws and regulations that govern our businesses around the world. As part of this effort, we regularly review our compliance policies and procedures and take additional action whenever appropriate to enhance them.”

Under the deal with AIG, an AIG subsidiary was charged with a crime for the next 12 months, but then the charge will be dismissed with prejudice — if AIG abides by the deferred prosecution agreement.

As part of the agreement, AIG and two subsidiaries will pay an $80 million penalty, and $46 million into a disgorgement fund maintained by the SEC.

Federal officials in October filed a criminal complaint charging AIG-FP PAGIC Equity Holding Corp., a subsidiary of AIG, with violating the federal securities laws, by aiding and abetting PNC Financial Services Group, Inc. (PNC) in connection with a fraudulent transaction to transfer $750 million in mostly troubled loans and venture capital investments from subsidiaries off of its books.

These transactions were previously the subject of a deferred criminal disposition involving PNC.

Earlier this year, the Department dismissed the criminal complaint against a PNC subsidiary, after the company fulfilled its deferred prosecution agreement obligations.

Merrill, AIG and PNC are three of 10 major corporations that have settled serious criminal charges with deferred prosecution, no prosecution or de facto no prosecution agreements over the last two years. The other seven are Computer Associates, Invision, AmSouth Bancorp, Health South, Banco Popular de Puerto Rico, Canadian Imperial Bank of Commerce and MCI. Bank of New York is currently seeking a similar deal with prosecutors in Brooklyn.

Companies are getting off the criminal hook with these agreements, which were originally intended for minor street crimes.

Now they are being used in very serious corporate crime cases.

If a crime has been committed — and there is little doubt that crimes have been committed by the corporations in these cases — then the companies should plead guilty and pay the penalty.

If prosecutors want to impose change on the corporation, they can do this after securing a conviction through probationary orders.

Right now, corporate lawyers are teaming up with prosecutors to go after individual executives while the company's record is wiped clean.

## DOW CHEMICAL SCANDAL(Bhopal Gas Tragedy)

To coincide with the twentieth anniversary of the Bhopal disaster, Jack Doyle came out with *Trespass Against Us: Dow Chemical and the Toxic Century*.

At midnight on December 2, 1984, 27 tons of lethal gasesleaked from Union Carbide's pesticide factory in Bhopal, India, immediately killing an estimated 8,000 people and poisoning thousands of others.

Today in Bhopal, at least 150,000 people, including children born to parents who survived the disaster, are suffering from exposure-related health effects such as cancer, neurological damage, chaotic menstrual cycles and mental illness.

Over 20,000 people are forced to drink water with unsafe levels of mercury, carbon tetrachloride and other persistent organic pollutants and heavy metals.

Activists from around the world — including human rights, legal, environmental health and other experts — mobilized this year to demand that Dow Chemical, the current owner of Union Carbide, be held accountable.

Twenty years after this disaster, the company responsible for this catastrophe and its former executives are still fugitives from justice. Union Carbide and its former chairman, Warren Andersen, were charged with manslaughter for the deaths at Bhopal, but they refuse to appear before the Indian courts.

Dow's “complete statement” on Bhopal:

Twenty years ago on December 3, 1984, one of the most tragic incidents in the history of industry occurred in Bhopal, India. Those of us in industry remember that day well, and the following days, when several thousand people died.

Although Dow never owned nor operated the plant, we — along with the rest of industry — have learned from this tragic event, and we have tried to do all we can to assure that similar incidents never happen again.

To that end, the chemical industry learned and grew as a result of Bhopal — creating Responsible Care with its strengthened focus on process safety standards, emergency preparedness, and community awareness. The industry also has worked with governmental regulators to assure that industry best practices are implemented through regulations for the protection of workers and communities.

While Dow has no responsibility for Bhopal, we have never forgotten the tragic event and have helped to drive global industry performance improvements. This is why Responsible Care was created and why these standards are essential for the protection of our employees and the communities where we live and work. Our pledge and our commitment is the full implementation of Responsible Care everywhere we do business around the world.

The former Bhopal plant was owned and operated by Union Carbide India, Ltd. (UCIL), an Indian company, with shared ownership by Union Carbide Corporation, the Indian government, and private investors. Union Carbide sold its shares in UCIL in 1994, and UCIL was renamed Eveready Industries India, Ltd., which remains a significant Indian company today.

Dow has no responsibility for Bhopal? The people of Bhopal don't agree. They say Union Carbide was responsible, and if Union Carbide is now owned by Dow, then Dow's responsible. They refuse to accept Dow's corporate shell game.

Dow says that for most of the past decade it has pursued a “series of ambitious goals to improve Environment, Health, and Safety performance. We did this because we value the safety of our people and neighbors.” The result, according to the company, has been 10,000 injuries averted since 1996.

“Our ‘Vision of Zero' means we want no injuries, illnesses, accidents, or environmental harm to result from our enterprise,” asserts the company. “It is a lofty goal, but it is also the only acceptable Vision for us to work toward.”

20 Things to remember about Dow chemical

20. Agent Orange/Napalm — The toxic herbicide and jellied gasoline used in Vietnam created horrors for young and old alike — and an uproar back home that forced Dow to rethink its public relations strategy.

19. Rocky Flats — The top secret Colorado site managed by Dow Chemical from 1952 to 1975 remains an environmental nightmare for the Denver area.

18. Body burden — In March 2001, the Centers for Disease Control reported that most people in the United States carry detectable levels of plastics, pesticides and heavy metals in their blood and urine.

17. 2,4-D — An herbicide produced by Dow Chemical, 2,4-D is still in used for killing lawn weeds, crop weeds and range weeds, and along utility company rights-of way and

railroad tracks. One of the key ingredients in Agent Orange, the toxic defoliant used in Vietnam, 2,4-D is the most widely used herbicide in the world.

16. Mercury — In Canada, Dow had been producing chlorine using the mercury cell method since 1947. Much of the mercury was recycled, but significant quantities were discharged into the environment through air emissions, water discharges, waste sludge and in end products. In March 1970, the governments of Ontario and Michigan detected high levels of mercury in the fish in the St. Clair River, Lake St. Clair, the Detroit River and Lake Erie. Dow was sued by state and local officials for mercury pollution.

15. PERC — Perchloroethylene is the hazardous substance used by dry cleaners everywhere. Dow tried to undermine safer alternatives.

14. 2,4,5 T — This is one of the toxic ingredients in Agent Orange. Doyle says that “Dow just fought tooth and nail over this chemical — persisted every way it could in court and with the agencies, at the state and federal levels, to buy more time for this product. They went into a court in Arkansas in the early 1970s to challenge the EPA administrator. They did that to buy some extra marketing time, and they got two years, even though it appears that Dow knew this chemical was a bad actor by then, caused birth defects in lab animals, and was also being found in human body fat by then. But it wasn't until 1983 that Dow quit making 2,4,5-T in the United States, and 1987 before they quit production in New Zealand. And 2,4,5-T health effects litigation continues to this day.”

13. Busting unions — In 1967, unions represented almost all of Dow's production workers. But since then, according to the Metal Trades Department of the AFL-CIO, Dow undertook an “unapologetic campaign to rid itself of unions.”

12. Silicone — The key ingredient for silicone breast implants, made by a joint venture between Dow and Corning (Dow Corning), made women sick. Litigation over silicone breast implants — removed from the market more than a decade ago — continues.

11. DBCP — DBCP is the toxic active ingredient in the Dow pesticide Fumazone. Doctors who tested men who worked with DBCP thought they had vasectomies — they had no sperm present.

10. Dursban — Dursban is the trade name for chlorpyrifos, a toxic pesticide, a product that proved to have the nerve agent effects that Rachel Carson warned about. It was tested on prisoners in New York in 1971 and in 1998 at a lab in Lincoln, Nebraska. It replaced DDT when DDT was banned in 1972. A huge seller, in June 2000, EPA limited its use and forced it off the market at the end of 2004.

9. Dow at Christmas — “Uses of Dow plastics by the toy industry are across the board,” boasted Dow Chemical in an internal company memo one Christmas season — “and more and more of our materials are found under the Christmas tree and on the birthday table, make some child, some toy company, and Dow, very happy indeed.” Among the chemicals used in these toys — polystyrene, polyethylene, ethylene copolymer resins, saran resins, PVC resins, or vinyls and ethyl cellulose. And a Happy New Year.

8.The Tittabawassee — The Tittabawassee is a river and river basin polluted by Dow in its hometown, Midland, Michigan.

7. Brazos River, Freeport, Texas — A February 1971 headline in the Houston Post read: “Brazos River is Dead.” In 1970 and 1971, Dow's operation there was sending more than 4.5 billion gallons of wastewater per day into the Brazos and on into the Gulf of Mexico.

6. Toxic Trespass — Doyle writes: “Dow Chemical has been polluting property and poisoning people for nearly a century, locally and globally — trespassing on workers, consumers, communities, and innocent bystanders — on wildlife and wild places, on the global biota and the global genome. ... Dow Chemical must end its toxic trespass.”

5. Holmesburg Experiments — In January 1981, a Philadelphia Inquirer story revealed that Dow Chemical paid a University of Pennsylvania dermatologist to test dioxin on prisoners at Holmesburg Prison in Philadelphia. Tests were conducted in 1964 on 70 inmates.

4. Worker deaths — Dow has a long history of explosions and fires at its facilities, well documented by Doyle. One example, in May 1979: an explosion ripped through Dow Chemical's Pittsburgh facility, killing two workers and injuring more than 45 others.

3. Brain tumors — In 1980, investigators found 25 workers with brain tumors at the company's Freeport, Texas facility — 24 of which were fatal.

2. Saran Wrap — The thin slice of plastic invaluable to our lives, Saran Wrap was produced by Dow until consumers were looking for Dow products to boycott. Dow decided to get out of consumer products for this reason — it sold off Saran Wrap — and since then the company, now the world's largest plastics maker, just manufactures the chemical feeds that manufacturers use to make our consumer products.

1. Bhopal — Give us this day our daily bread, and forgive us our trespasses, as we seek to bring to justice those who trespass against us.

## PAXIL SCANDAL

GlaxoSmithKline, Paxil and selective serotonin reuptake inhibitors (SSRIs). It was the story that foreshadowed and strikingly paralleled the controversy surrounding Merck, Vioxx and Cox-2 inhibitors.

Longstanding evidence of harm from a heavily advertised, blockbuster medicine. Company and regulatory refusal to consider disturbing evidence of dangerous side effects. Suppression of Food and Drug Administration (FDA) regulators willing to look coldly at the evidence. And an eventual, but too long delayed breakthrough in appropriate health messages to the public.

With the antidepressant Paxil (generic name: paroxetine), the story was driven primarily from the United Kingdom, by the BBC Program “Panorama,” and a public interest group called Social Audit. They called attention to the severe side effects from the drugs — notably that they are addictive and lead to increased suicidality in youth.

In 2003, the evidence of dangerous side effects had piled too high for British regulators to continue to ignore it. In June, the UK health experts advised that children should not be prescribed Paxil.

In February 2004, Panorama reported on internal documents
from GlaxoSmithKline(GSK) showing the company knew that Paxil could not be proved to work in children.

In March 2004, days after the Medicines and Healthcare Products Regulatory Agency — the UK's drug regulatory agency — advised that Paxil dosages should be kept to low levels, an expert participating in the Paxil review resigned, claiming the agency hadpossessed evidence for more than a decade suggesting that Paxil dosages should be kept low, but failed to act on it.

By this time, the story had started to heat up in the United States. Dr. Andrew Mosholder, of the FDA Office of Drug Safety, had conducted an analysis of clinical trials related to antidepressant use in children, and found a heightened risk of suicide. But his superiors refused to let him present his findings to an advisory panel convened to look at the issue in the wake of the British action.

According to an investigation by Senator Charles Grassley, R-Iowa, the FDA actually tried to get Mosholder to present data that deceptively underrepresented the risk of suicide.

Although Paxil is not approved by the FDA for prescription to children, doctors routinely write “off-label” prescriptions for the product for children, a practice permitted under FDA rules. More than two million prescriptions for Paxil were written for children and adolescents in the United States in 2002. Nearly 900,000 of these prescriptions were for youngsters whose primary diagnosis was a mood disorder, the most common of which is depression.

In April 2004, the Lancet, the prestigious British medical journal, published a paper showing that clinical test data did show problems with prescribing Paxil and other SSRIs to children. The Lancet would later name this article the scientific paper of the year.

In June, New York State Attorney General Eliot Spitzer filed suit against Glaxo, charging the giant drug maker with suppressing evidence of Paxil's harm to children, and misleading physicians.

“By concealing critically important scientific studies on Paxil, GSK impaired doctors' ability to make the appropriate prescribing decision for their patients and may have jeopardized their health and safety,” said Spitzer in announcing the suit.

GSK responded in a statement that it “has acted responsibly in conducting clinical studies in pediatric patients and disseminating data from those studies. All pediatric studies have been made available to the FDA and regulatory agencies worldwide. We have publicly communicated data from all pediatric studies.”

Spitzer's complaint cited a 1998 GSK memo which states that the company must “manage the dissemination of these data in order to minimi[z]e any potential negative commercial impact.”

Responding to Spitzer's suit, GSK claimed that, “As for the 1998 memo, it is inconsistent with the facts and does not reflect the company position.”

The New York complaint asserted as well that “GSK has repeatedly misrepresented the safety and efficacy outcomes from its studies of paroxetine as a treatment for MDD [Major Depressive Disorder] in a pediatric population to its employees who promote paroxetine to physicians.”

Later in June, GSK announced a new policy, whereby it would post on the Internet summaries of the results of clinical trials it conducts. In August, the company settled with Spitzer for $2.5 million, plus a commitment to maintain the policy of posting clinical trial results, for all drugs marketed by the company.

The next month, the Star-Ledger of New Jersey reported on a Glaxo memo from the year before, instructing the company's sales force not to talk to doctors about company data showing dangers from prescribing Paxil to kids. Glaxo says sales people do not discuss off-label uses with doctors.

In October, the FDA ordered Glaxo and other SSRI makers to include a “black box” warning — the agency's strongest warning — with their pills. The warning says SSRIs double the risk of suicide in children, though some medical researchers say the number should be higher. At least one GSK clinical trial showed 7.5 percent of youth taking Paxil suffering from suicidality (versus zero percent among those taking a placebo).

Glaxo continues to insist that it disclosed information to appropriate authorities as soon as it discerned important results from its clinical studies.

Thanks largely to Glaxo and other drug companies' bombardment of the airwaves with ads touting the wonders of drug treatments for all kinds of emotional disorders, childhood use of antidepressants and other pills is skyrocketing — even for drugs that haven't been shown to help kids. No one should understate the sometime difficulties of adolescence and the trauma that many youth must deal with. But overdosing kids is no answer — and pushing ineffective drugs that spike their risk of suicidality is deplorable.

## MERCK DRUG SCANDAL

It's not as if people in power didn't know about the impending disaster — what David Graham, a Food and Drug Administration (FDA) drug safety official, calls “maybe the single greatest drug-safety catastrophe in the history of this country."

Testifying before a Senate committee in November, Dr. Graham put the number in United States who had suffered heart attacks or stroke as result of taking the arthritis drug Vioxx in the range of 88,000 to 139,000.

As many as 40 percent of these people, or about 35,000-55,000, died as a result, Graham said.

The unacceptable cardiovascular risks of Vioxx were evident as early as 2000 — a full four years before the drug was finally withdrawn from the market by its manufacturer, Merck, according to a study released by The Lancet, the British medical journal.

“This discovery points to astonishing failures in Merck's internal systems of post-marketing surveillance, as well as to lethal weaknesses in the U.S. Food and Drug Administration's regulatory oversight,” The Lancet editors wrote.

Authors of the Lancet study pooled data from 25,273 patients who participated in 18 clinical trials conducted before 2001. They found that patients given Vioxx had 2.3 timesthe risk of heart attacks as those given placebos or other pain medications.

Merck withdrew Vioxx on September 30, 2004, after a company-sponsored trial found a doubling of the risks for heart attack or stroke among those who took the medicine for 18 months or more.

Merck says it disclosed all relevant evidence on Vioxx safety as soon as it acquired it, and pulled the drug as soon as it saw conclusive evidence of the drug's dangers.

“Over the past six years,” Merck CEO Raymond Gilmartin told the Senate Finance Committee at the November hearing where Graham made his big splash, “since the time Merck submitted a New Drug Application for Vioxx to the FDA, we have promptly disclosed the results of numerous Merck-sponsored studies to the FDA, physicians, the scientific community and the media and participated in a balanced, scientific discussion of its risks and benefits.”

Until the September clinical trial results came in, Gilmartin said, “the combined data from randomized controlled clinical trials showed no difference in confirmed cardiovascular event rates between Vioxx and placebo and Vioxx and NSAIDs other than naproxen. When data from the APPROVe study [the September results] became available, Merck acted quickly to withdraw the medicine from the market.”

But there is evidence that strongly suggests a different version of the story.

The Lancet findings came in the wake of new disclosures that suggest Merck was fully aware of Vioxx's potential risks by 2000.

The Wall Street Journal revealed e-mails that confirm Merck executives' knowledge of their drug's adverse cardiovascular profile — the risk was “clearly there,” according to one senior researcher.

Merck's marketing literature included a document intended for its sales representatives which discussed how to respond to questions about Vioxx — it was labeled “Dodge Ball Vioxx.”

“Given this disturbing contradiction — Merck's own understanding of Vioxx's true risk profile and its attempt to gloss over these risks in their public statements at the time — it is hard to see how Merck's chief executive officer, Raymond Gilmartin, can retain the confidence of the public, his company's most important constituency,” the Lancet editors wrote. “The FDA's position is no less [un]comfortable. The public expects national drug regulators to complete research in their ongoing efforts to protect patients from undue harm. But, too often, the FDA saw and continues to see the pharmaceutical industry as its customer — a vital source of funding for its activities — and not as a sector of society in need of strong regulation.”

Dr. Graham, the federal drug-safety reviewer, continues to seek to publish his study demonstrating the dangers of Vioxx, but he has been delayed and demeaned by top officials at the Food and Drug Administration.

At the Senate hearing, Dr. Graham said that the FDA “as currently configured is incapable of protecting America against another Vioxx,” because of ties between agency reviewers and the pharmaceutical industry.

Graham says that as a result of his testimony, his bosses have threatened to toss him out of the FDA's drug safety unit.

In December 2004, a group of 22 members of the U.S. House of Representatives sent a letter to the FDA complaining about efforts to intimidate and smear Dr. Graham.

House members, led by Bart Stupak, D-Michigan, sent the letter to acting FDA Commissioner Lester Crawford “to express strong dismay at recent reports about efforts taken by some at FDA to discredit and smear Dr. Graham.”

“This shameful behavior by management cannot continue, and we demand you put a stop to it,” the letter said.

“Your treatment of Dr. Graham undoubtedly has had a chilling effect on the willingness of FDA employees to speak up and disagree when they believe the public's health is at risk,” the letter said.

If Graham were targeting just Merck, his job might be safe. But it is about more than Vioxx and Merck.

At the Senate hearing, Graham said that at least five medications currently on the market pose such risks that their sale ought to be limited or stopped. Graham named the five as Meridia, Crestor, Accutane, Bextra and Serevent.

In November 2004, Forbes.com — capitalist tool that it claims to be — named David Graham “face of the year.”

We join with Forbes in saluting Graham “for his steadfast advocacy of drug safety and his willingness to blow the whistle on his bosses.”

“Without Graham, the Vioxx debacle might have been seen as an isolated event,” Forbes wrote. “But because he was willing to step into the spotlight, the withdrawal of Vioxx from the market looks like part of a systemic failure to properly weigh the risks and benefits of drugs. To hear Graham tell it, this is part of a systemic failure to address drug safety on the part of the FDA, a story that reaches back over the entirety of his 20-year career at the agency. That could kick-start a broad debate over what risks we're willing to take every time we swallow pills. In the long run, change would be good for regulators and drug companies.”

## McWane SAFETY SCANDAL

The New York Times ran a three-part series by David Barstow and Lowell Bergman in 2004, that exposed the egregious safety record of McWane Inc., a large, privately held Alabama-based sewer and water pipe manufacturer.

Nine McWane employees have lost their lives in workplace accidents since 1995.

More than 4,600 injuries were recorded among the company's 5,000 employees.

According to the series, one man died when an industrial oven exploded after he was directed to use it to incinerate highly combustible paint. Another was crushed by a conveyor belt that lacked a required protective guard.

Three of McWane's nine deaths were the result of deliberate violations of safety standards.

In five others, safety lapses were a contributing factor.

According to the Times, McWane pulled the wool over the eyes of investigators by stalling them at the factory gates, and then hiding defective equipment.

Accident sites were altered before investigators could inspect them, in violation of federal rules.

One former plant manager told of submitting phony water samples to environmental investigators, the Times reported.

When government enforcement officials did find serious violations, "the punishment meted out by the federal government was so minimal that McWane could treat it as simply a cost of doing business."

"After a worker was crushed to death by a forklift that apparently had faulty brakes, an Occupational Safety and Health Administration investigation found defects in all 14 of the plant's forklifts, including the one involved in the death," the Times reported. The fine was just $10,500. Employers are further protected by the workers' compensation system, which can make it hard for victims to sue."

Companies who cause the death of workers on the job rarely face the full force of the criminal law. Manslaughter and negligence prosecutions in workplace death cases have been declining for years — as the dead worker bodies steadily pile up.

According to the Times, in one McWane oven explosion that killed an employee, Frank Wagner, McWane "hired a well-connected lobbyist to lean on Dennis Vacco, then New York State's attorney general, and ended up with a settlement in which it did not admit responsibility for the death."

The experts who looked at the case determined that the explosion that killed him was the result of reckless criminal actions by McWane, which was operating a cast-iron foundry in Elmira, New York, where Wagner worked.

"The evidence compels us to act," the prosecution team wrote in a confidential memorandum to Vacco in 1996. The team urged him to ask a grand jury to indictMcWane and its managers on manslaughter and other charges. A grand jury inquiry, senior investigators believed, could have taken them up the corporate ladder, the Times reported.

But Vacco never sought an indictment against McWane for any crime.

Only after an unusual intervention by the United States attorney in Buffalo, who threatened federal charges, did McWane agree to plead guilty to a state felony and pay $500,000.

“But as the company and Mr. Wagner's widow are quick to note, that charge, a hazardous-waste violation, specifically did not hold McWane accountable for Mr. Wagner's death,” the Times reported.

“It was a reckless act on the part of certain individuals in that company that caused the death of that person. I'll believe that till the day I die,” says Donald Snell, who supervised the state environmental agency's investigation. “The ends of justice were not met.”

As the Times series showed, in plant after plant, year after year, “McWane workers have been maimed, burned, sickened and killed by the same safety and health failures.”

The Times documented more than 400 safety violations and 450 environmental violations since 1995 alone.

“Yet regulators and law enforcement officials have never joined forces to piece this record together, never taken a coordinated approach to end patterns of transgression,” the Times reported. “Their responses, piecemeal and disjointed, bring into sharp relief weaknesses in government's ability to take on corporations with operations spread far and wide.”

McWane says it is changing — and it's certainly paying more attention to PR after the Times series.

“Over the last several years, our Company has embarked on significant changes that are focused on setting the industry standard in employee safety, health and environmental programs,” asserts a May 2004 report from the company on health and safety. “We have challenged ourselves to go beyond compliance in the development of a state-of-the-art safety, health and environmental management system to create a comprehensive program designed to exemplify excellence in environmental, health and safety performance, integrity, service and quality.”

“McWane and its subsidiaries actively promote a safe workplace,” the company asserts. “We have positive and ongoing working relationships with federal, state and local authorities to continuously improve our safety training, workplace technologies, and overall safety programs.”

That doesn't exactly jibe with what company managers call “the McWane way” — what federal and state regulators characterized to the Times as a “lawless” and “rogue” operation that ruthlessly sought profits with disregard for worker safety and well-being.

## WAL MART SCANDAL

ou only have to look at the cover of Wal-Mart's 2004 annual report to know the company is facing trouble unlike any it has had to handle before.

"It's my Wal-Mart," asserts the slogan on the cover of the annual report.

At the bottom are these claims: "Good Jobs * Good Works * Good Citizen * Good Investment."

Missing is any reference to "Always Low Prices."

Stepped up and novel community and legal challenges confronting the company are making the mammoth retailer expend energy on repositioning its image. Hence the annual report, the major image-oriented television ads, the sponsorships on National Public Radio — listened to by few of its shoppers — and the huge surge in campaign contributions. Wal-Mart and its managers gave more than $2 million to federal candidates in the last U.S. electoral cycle, more than any oil company, and almost triple the level the company donated in the 2000 elections.

The company faces a class action lawsuit on behalf of 1.6 million women workers, alleging rampant employment discrimination at Wal-Mart.

The Service Employees International Union (SEIU) has announced plans to spend $25 million a year with the ultimate goal of unionizing Wal-Mart, the largest private U.S. employer.

And the company — which has already lost more than 200 site fights — faces an even more-intensified resistance to its efforts to locate new stores, as it increasingly seeks to enter markets in more urban areas. In April, voters in the largely African-American and Latino working class town of Inglewood, California rejected a referendum that would have allowed Wal-Mart to open a Supercenter without being subject to normal municipal reviews.

But while on a bit of a public relations defensive, the company remains the colossus of U.S. — and increasingly global — retailing. It registers more than a quarter trillion dollars in sales. Its revenues account for 2 percent of U.S. Gross Domestic Product.

The company takes in more than one in five dollars spent nationally on food sales, and market researcher Retail Forward predicts Wal-Mart will control more than a third of food store industry sales, as well as a quarter of the drug store industry, by 2007. Wal-Mart is the largest jewelry seller in the United States, "despite the fact that the prime target market for jewelry — high-income women from 25 to 54 years — are the least likely of all consumers to shop for jewelry in discount channels," as Unity Marketing notes. Wal-Mart is the largest outlet for sales of CDs, videos and DVDs. And on and on.

For two years running, Fortune has named Wal-Mart the most admired company in America. It is arguably the defining company of the present era.

The company's business model has relied on new innovations in inventory management, focusing on ignored markets (low-income shoppers in rural areas — though this is now changing), and squeezing suppliers to lower their margins. But it has also relied centrally on undercompensating employees and externalizing costs on to society.

A February 2004 report issued by Representative George Miller, D-California, encapsulated the ways that Wal-Mart squeezes and cheats its employees, among them: blocking union organizing efforts, paying employees an average $8.23 an hour (as compared to more than $10 for an average supermarket worker), allegedly extracting off-the-clock work, and providing inadequate and unaffordable healthcare packages for employees.

Miller's report's innovation was in documenting how Wal-Mart's low wages and inadequate benefits not only hurt workers directly, but impose costs on taxpayers. The report estimated that one 200-person Wal-Mart store may result in a cost to federal taxpayers of $420,750 per year — about $2,103 per employee. These public costs include:

$36,000 a year for free and reduced lunches for just 50 qualifying Wal-Mart families.

$42,000 a year for Section 8 housing assistance, assuming 3 percent of the store employees qualify for such assistance, at $6,700 per family.

$125,000 a year for federal tax credits and deductions for low-income families, assuming 50 employees are heads of household with a child and 50 are married with two children.

$100,000 a year for the additional Title I [educational] expenses, assuming 50 Wal-Mart families qualify with an average of two children.

$108,000 a year for the additional federal healthcare costs of moving into state children's health insurance programs (S-CHIP), assuming 30 employees with an average of two children qualify.

“There's no question that Wal-Mart imposes a huge, often hidden, cost on its workers, our communities and U.S. taxpayers,” Miller said. “And Wal-Mart is in the driver's seat in the global race to the bottom, suppressing wage levels, workplace protections and labor laws.”

Wal-Mart's abuses are giving rise to countervailing efforts, but it is an open question whether the company has amassed such power that it will be able to defeat such initiatives.

In California, in November, the company was able to stave off by a 51-to 49 percent margin a proposition that would have required every large and medium employer in the state to provide decent healthcare coverage for their workers, with the employer contribution set at a minimum of 80 percent of costs.

Wal-Mart dumped a half million dollars into the anti-Proposition 72 campaign just a week before the vote.

“As one of California's leading employers, we care about the health of our 60,000 employees here,” said Wal-Mart spokesperson Cynthia Lin, in celebrating the defeat of Proposition 72. “That's why we provide our employees with affordable, quality health care coverage.”

“Prop. 72 was never about Wal-Mart,” she claimed. “It was about allowing businesses to operate without unreasonable government mandates, it was about the survival of small businesses and it was about consumer choice in healthcare benefits.”

The biggest immediate challenge facing Wal-Mart is the class action lawsuit filed by its women workers. The women allege that Wal-Mart pays female workers less than men, promotes men faster than women and men above more competent women, and fosters a hostile work environment. A federal judge ruled in June that the case could proceed as a class action.

“We strongly disagree with his decision and will seek an appeal,” says company spokesperson Mona Williams. “While we cannot comment on the specifics of the litigation, we can say we continue to evaluate our employment practices. For example, earlier this month Wal-Mart announced a new job classification and pay structure for hourly associates. This new pay plan was developed with the assistance of third party consultants and is designed to ensure internal equity and external competitiveness.”

Liza Featherstone, who has chronicled the claims of the women employees in her book Selling Women Short, says women workers report “a pattern of arbitrary, very subjective decision-making by management.” They report business meetings being held at Hooter's or strip clubs.

The contradiction of a self-righteously moral company — which won't sell racy magazines or CDs with parental advisory labels — permitting such behavior is a reflection of women employees' powerlessness. “Unlike its female workforce,” Featherstone writes, “the women who shop at Wal-Mart can't be ignored, and many of them have conservative values.”

But while Wal-Mart is willing to bend to consumer demand on marginal issues like covering over the headlines on Cosmopolitan magazine, it is not so flexible on respect for worker rights. Nor is there any sign of a consumer rebellion on anything like the scale necessary to make the company revisit its employment policies.

## RIGGS BANK SCANDAL

An explosive report from the U.S. Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, issued in July, revealed that Riggsillegally operated bank accounts for former Chilean dictator Augusto Pinochet, and routinely ignored evidence of corrupt practices in managing more than 60 accounts for the government of Equatorial Guinea.

An ongoing internal investigation by Riggs has revealed that the bank's dealing with Pinochet dates back to 1985, while the Chilean despot remained in power, according to a November Washington Post report.

Riggs has not so far been cited for civil or criminal violations in connection with the Pinochet money-laundering scheme. In May, the bank paid $25 million in fines in connection with money-laundering violations related to the Equatorial Guinea and Saudi Arabian governments.

The bank is the subject of ongoing criminal investigations by the U.S. Department of Justice and the U.S. Attorney's Office for the District of Columbia, according to recent filings with the Securities and Exchange Commission.

Riggs, which traces its history back to 1840, likes to brag about serving such historical figures as President Abraham Lincoln (and 19 other presidents) and American Red Cross founder Clara Barton, and having supplied the gold for the purchase of the state of Alaska.

It capitalized on its venerable reputation in Washington to become the banker to the embassies that dot the city and the large foreign diplomatic corps resident in the U.S. capital.

Riggs eagerly sought to service them all, apparently even when dictators and their families requested the bank engage in illegal activities to launder money.

The Permanent Subcommittee on Investigations report found that from 1994 until 2002, Riggs opened at least six accounts and issued several certificates of deposit (CDs) for Pinochet while he was under house arrest in the United Kingdom and his assets were the subject of court proceedings. The aggregate deposits in the Pinochet accounts at Riggs ranged from $4 million to $8 million at a time.

What is now becoming apparent is that Riggs was collaborating with Pinochet even a decade earlier, with a scale of activity not yet clear.

Riggs was not a passive or unknowing actor in this drama.

According to the Permanent Subcommittee on Investigations report, high bank officials solicited Pinochet's business, the bank helped Pinochet set up offshore shell corporations and open accounts in the names of those corporations to disguise his control of the accounts, altered the names of his personal accounts to disguise their ownership, and otherwise worked to help him hide his money flow.

Although these activities seem to violate U.S. banking rules, the Office of the Comptroller of the Currency (OCC) did not take enforcement action against the bank after it learned of these matters in 2002.

That presumably was not unrelated to the fact that the OCC examiner at Riggs soon thereafter went to work for Riggs.

This is not just a matter of avoiding taxes or failing to follow legalistic rules. These are the actions that reward dictators, and help them live lavishly after stepping down from power.

They come at the expense of the dictator's victims, thousands of dead and tortured in the case of Pinochet.

Pinochet is not the only dictator for whom Riggs undertook money laundering.

Equatorial Guinea is a small, oil-rich West African country dominated by a dictator, President Teodoro Obiang Nguema Mbasago.

Obiang, his family and cronies live a life of luxury, while the rest of the country remains desperately poor.

The Permanent Subcommittee on Investigations report found that from 1995 until 2004, Riggs Bank administered more than 60 accounts and CDs for the government of Equatorial Guinea, Equatorial Guinea government officials or their family members.

Money laundering to cover up corruption appeared to be routine.

Combined, these accounts represented the largest relationship at Riggs Bank, with aggregate deposits ranging from $400 to $700 million at a time.

Riggs does not deny these activities took place, and its internal investigation is continuing. A number of Riggs employees involved in the scandals have been fired or demoted. In July, Riggs announced that it was going to be acquired by PNC Financial Services Group (about which see the profile of AIG above) for more than $700 million. Ongoing legal problems at

Riggs could derail the deal, which is supposed to be consummated early in 2005, but for now both parties say it remains on.