here is the short case studies from "Financial Shenanigans," detailing the reasons for concern (potential shorting reasons), the specifics of the issues, and how they could have been discovered by investors performing due diligence.

\*\*Methodology Legend:\*\*

\* \*\*FSA:\*\* Financial Statement Analysis (Ratios, Trends, Comparisons between statements)

\* \*\*Footnotes/MD&A:\*\* Scrutiny of disclosures within 10-Q/10-K filings (policies, estimates, segments, risks, liquidity, etc.)

\* \*\*Release/Call:\*\* Analysis of Earnings Release, Investor Presentations, Conference Calls

\* \*\*Context:\*\* Consideration of Industry Trends, Management Changes, Compensation, Regulatory Environment, Transaction Structure, Common Sense ("Too Good to Be True")

\* \*\*Disclosure Quality:\*\* Assessing transparency, consistency, changes, or vagueness in company communications

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\*\*1. Enron Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Unrealistic/fraudulent revenue growth; Hidden losses/debt via off-balance-sheet entities; Manipulated earnings & CFFO; Misleading metrics. (EM #1, #2, #3, #5; CF #1, #2, #3, #4; KM #1, #2)

\* \*\*Details:\*\*

\* Revenue grew 10x ($9.2B to $100.8B) in 5 years organically – unprecedented. Profit growth lagged far behind revenue growth (e.g., 150% revenue growth vs. <10% profit growth in 2000).

\* Used mark-to-market accounting aggressively and inappropriately for long-term energy contracts, recognizing estimated future profits immediately, often based on internal "mark-to-model" valuations.

\* Grossed up revenue in trading business (booking full value, not just net fee).

\* Used thousands of off-balance-sheet Special Purpose Entities (SPEs) to hide debt and losses.

\* Used SPEs to borrow funds, then "sold" commodities to them, booking the loan inflow as CFFO.

\* Pulled gains from SPEs (tied to own stock price) into income but hid losses.

\* Deferred huge windfall trading gains (California crisis) via reserves to smooth earnings.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Revenue growth rate defied reality and historical precedent for large companies.

\* \*\*FSA:\*\* Revenue growth vastly outpaced profit growth consistently. CFFO likely lagged underlying economic reality (though manipulated). Compare reported revenue/profits to peers.

\* \*\*Footnotes/MD&A:\*\* Scrutinize revenue recognition policy (mark-to-market application). Investigate disclosures on SPEs, related-party transactions, guarantees, variable interest entities (VIEs). Understand nature of trading revenue (gross vs. net). Look for reserve activity.

\*\*2. WorldCom Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Brazen expense capitalization fraud; Fictitious profit and CFFO; Acquisition accounting abuse masking weak core business. (EM #2, #4, #5, #7; CF #2, #3, #4; KM #1, #2)

\* \*\*Details:\*\*

\* Improperly capitalized billions ($3.8B identified initially, >$70B restated) of normal operating "line costs" (network access fees) as assets (PP&E).

\* This dramatically understated expenses and inflated profits.

\* Shifting capitalized line costs moved cash outflows from Operating section to Investing section, artificially inflating CFFO by billions ($8.6B boost over 2 years including other items).

\* Used ~70 acquisitions to create "cookie jar" reserves released later to smooth/boost earnings. Failed Sprint deal removed reserve source.

\* Released various reserves to inappropriately reduce line cost expense.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Huge, unexpected decline in Free Cash Flow ($6.1B drop 1999-2000) despite stable reported CFFO. Unexpected surge in Capital Expenditures (32% jump 1999-2000) during industry downturn and contrary to guidance – partly due to misclassified line costs. Declining ratio of line costs expense to revenue. Gross/Operating margins improving suspiciously.

\* \*\*Context:\*\* Heavy reliance on acquisitions for growth ("roll-up"). Failed major acquisition (Sprint). Intense pressure to meet Wall Street numbers.

\* \*\*Footnotes/MD&A:\*\* Analyze composition of capital expenditures. Scrutinize acquisition accounting, goodwill, and reserve accounting (especially restructuring reserves).

\*\*3. Tyco International Ltd.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive/fraudulent acquisition accounting; Inflated CFFO via manipulation; Management looting/self-dealing. (EM #2, #4, #5, #6, #7; CF #1, #2, #3, #4; KM #1, #2)

\* \*\*Details:\*\*

\* Made >700 acquisitions ($29B, 1999-2002), many undisclosed ("roll-up"). Used acquisition accounting to reload reserves, boost earnings.

\* Improperly applied acquisition accounting to ADT dealer contracts (capitalized customer acquisition costs as Investing outflow), inflating CFFO.

\* Created sham "Dealer Connection Fee" ($200 per contract) offset by higher purchase price; booked the $200 fee as CFFO inflow, creating bogus CFFO ($719M total).

\* Manipulated target working capital pre-closing to boost post-acquisition CFFO.

\* CEO Kozlowski & CFO Swartz looted hundreds of millions (undisclosed pay, forgiven loans).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Extremely high volume of acquisitions, many small/undisclosed. Known aggressive management.

\* \*\*FSA:\*\* Calculate Free Cash Flow \*after\* Acquisitions (was negative 2000-2002 despite positive CFFO). Analyze CFFO drivers – reliance on working capital changes, acquisition effects.

\* \*\*Footnotes/MD&A:\*\* Scrutinize acquisition accounting, goodwill, intangible amortization, restructuring reserves. Look for details on ADT accounting. Examine executive compensation, loans, related-party transactions.

\* \*\*Disclosure Quality:\*\* Lack of transparency around numerous small acquisitions.

\*\*4. Symbol Technologies Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Pervasive use of almost all types of shenanigans; Suspicious consistency masking volatility/fraud. (EM #1-7; CF #1-4; KM #1, #2)

\* \*\*Details:\*\*

\* 32 straight quarters meeting/beating estimates (even during tech bust). Used end-of-quarter adjustments, EPS rounding.

\* Revenue: Channel stuffing, shipping unwanted/incorrect product, "parking" fake sales, circular scams (buying back own product at loss), boomerang deals.

\* Expenses: Improper FICA deferral, aggressive cost capitalization (software/soft assets surged), cookie jar reserves (restructuring, Telxon acquisition), failed to record vendor invoices, options backdating.

\* Balance Sheet/Metrics: Converted AR to Notes Receivable to hide DSO surge (jumped from 80 to 119, then dropped to 90 post-conversion); Inventory jumps; Declining ADA % AR.

\* Cash Flow: CFFO lagged Net Income. Faked sale of receivables.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Unusually smooth/consistent earnings streak, especially during industry downturn.

\* \*\*FSA:\*\* CFFO consistently lagging Net Income. DSO analysis (track surge then sudden drop). DSI analysis (inventory jumps). Declining ADA % AR. Analyze software capitalization trends vs peers/revenue. Analyze gross/operating margins for unusual stability/improvement. Track EPS rounding.

\* \*\*Footnotes/MD&A:\*\* Scrutinize revenue recognition, restructuring charges, acquisition accounting (Telxon), software capitalization policy, AR composition (Notes vs Trade), inventory reserves.

\* \*\*External Research:\*\* CFRA reports highlighted multiple red flags prior to collapse.

\*\*5. Adelphia Communications\*\*

\* \*\*Reasons (Short Thesis):\*\* Weak governance (family control); Related-party looting; Subscriber count manipulation. (KM #1, Breeding Ground)

\* \*\*Details:\*\* Rigas family dominated management/board. Looted company funds. Artificially inflated subscriber counts by including unconsolidated affiliates and non-cable subscribers.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context/Governance:\*\* Identify family control of management and board. Look for related-party transactions.

\* \*\*Footnotes/MD&A:\*\* Analyze subscriber definitions and sources; track changes in definition or inclusion criteria over time. Scrutinize related-party transactions and disclosures.

\*\*6. HealthSouth Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Toxic "win at all costs" culture enabling fraud. (Breeding Ground)

\* \*\*Details:\*\* CEO Scrushy pressured subordinates to fabricate earnings ("fix it") via "family meetings."

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Assess management culture (promotional, intense pressure, bullying). Look for unusually consistent earnings streaks. (Harder to detect purely from filings without insider info or external reports on culture).

\*\*7. Sunbeam Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive accounting under "turnaround" CEO; Bogus revenue; Expense/Reserve manipulation. (EM #1, #2, #5, #7; Breeding Ground)

\* \*\*Details:\*\* Changed quarter-end date. Aggressive bill-and-hold sales ($29M/$35M improper). Improper consignment sales ($36M). Recorded vendor rebates tied to future purchases as current income/expense reduction. Took inflated "Big Bath" restructuring charge ($35M+ excess) creating reserves released later into income.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Arrival of high-profile, aggressive CEO (Dunlap) known for cost-cutting and selling companies.

\* \*\*FSA:\*\* Analyze revenue growth sustainability. Track DSO (likely increased with bill-and-hold/consignment). Analyze gross/operating margins for unusual improvement post-restructuring. Compare CFFO to Net Income.

\* \*\*Footnotes/MD&A:\*\* Read revenue recognition policy carefully (bill-and-hold, consignment disclosures). Analyze restructuring charge components and subsequent reserve activity/margin impact. Look for vendor rebate disclosures.

\*\*8. Computer Associates International, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive revenue recognition driven by excessive compensation plan; Hiding receivables. (EM #1; CF #1; Breeding Ground; KM #2)

\* \*\*Details:\*\* Used "35-day month" (backdating). Recognized multi-year license revenue entirely up-front ($3.3B premature revenue 1998-2000). Huge $1B+ stock payout tied to stock price incentivized manipulation. Used vague "assignment" of receivables to third party, likely to hide AR buildup and boost CFFO.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Identify extreme executive compensation plans tied to stock price performance.

\* \*\*FSA:\*\* Track DSO (surged to 247-342 days). Analyze growth in long-term/unbilled receivables vs. revenue. Analyze CFFO drivers (look for receivable financing/sales).

\* \*\*Footnotes/MD&A:\*\* Scrutinize revenue recognition policy (long-term contracts). Examine details of receivable assignments/sales. Analyze executive compensation footnotes.

\* \*\*Disclosure Quality:\*\* Vague disclosure on receivable assignment ("Company's decision").

\*\*9. Transaction Systems Architects, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive change in revenue recognition masking slowdown. (EM #1)

\* \*\*Details:\*\* Switched from ratable to up-front recognition for 5-year contracts. Turned -10% license revenue decline into +21% reported total revenue growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* CFFO lagged Net Income post-change. DSO surged (89 to 116 days). Unbilled and Long-Term Receivables surged dramatically relative to sales growth.

\* \*\*Footnotes/MD&A:\*\* Identify and quantify impact of change in revenue recognition policy.

\*\*10. Raytheon Company\*\*

\* \*\*Reasons (Short Thesis):\*\* Accounting estimates boosting earnings non-operationally. (EM #1; EM #5)

\* \*\*Details:\*\* Percentage-of-completion estimates proved too high, required charge. Changed pension measurement date, boosting earnings $41M.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze stability/trend of margins on long-term contracts.

\* \*\*Footnotes/MD&A:\*\* Monitor Percentage-of-Completion contract status/profitability. Identify changes in pension assumptions (measurement date, expected return, discount rate) and quantify earnings impact.

\*\*11. Xerox Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive lease accounting (revenue & expense); Reserve manipulation (acquisition & general). (EM #1; EM #5, #7)

\* \*\*Details:\*\* Lease Acct: Used low discount rates ($757M impact), pulled forward extension revenue ($300M), increased residual values ($43M impact). Reserves: Created improper $100M "unknown risks" reserve on Rank acquisition, released quarterly to meet estimates; released $396M total from ~20 excess reserves. Sold receivables stealthily.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Compare lease accounting assumptions (discount rate, residual value %) vs. peers and economic reality (e.g., local borrowing rates). Track reserve balances (esp. "Other liabilities," acquisition reserves) relative to revenue/expenses; look for declines boosting margins. Analyze CFFO vs NI, drivers of CFFO (receivable sales).

\* \*\*Footnotes/MD&A:\*\* Scrutinize lease accounting policy/estimates. Analyze acquisition accounting and restructuring charges for reserve creation. Track reserve adequacy and releases. Look for receivable sale disclosures.

\*\*12. Softbank Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive revenue structuring (asset sale); Inflated CFFO via disposal structure; Potential revenue acceleration (mobile contracts). (EM #1, #3; CF #3)

\* \*\*Details:\*\* Structured modem business sale to allocate ¥40B (of ¥85B proceeds) to future service revenue, shifting gain to future and boosting current CFFO (shifted inflow from Investing to Operating). Changed mobile contract structure, potentially accelerating revenue (rising DSO).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze CFFO drivers – identify large/new "increase in deferred revenue" inflow. Analyze gain on asset sale vs. proceeds. Track DSO trend after mobile contract changes.

\* \*\*Footnotes/MD&A:\*\* Scrutinize disclosures on asset sales involving concurrent service agreements. Understand allocation of proceeds. Analyze mobile revenue recognition.

\* \*\*Context:\*\* Compare disclosures between parties involved in asset sale (if possible).

\*\*13. Krispy Kreme Doughnuts Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Bogus revenue; Manipulated metrics masking deterioration. (EM #1, #2; KM #1)

\* \*\*Details:\*\* Recorded revenue on equipment shipped to own trailers. Recorded sham revenue on sale to franchise pre-reacquisition. Same-Store Sales (SSS) trend diverged significantly from Revenue per Store trend.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Compare SSS growth vs. Revenue per Store growth trend; divergence is a major warning. Analyze revenue sources around acquisitions.

\* \*\*Footnotes/MD&A:\*\* Understand definition of SSS, check for consistency. Scrutinize acquisition-related transactions.

\*\*14. McDATA Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive change in revenue recognition masking decline. (EM #1)

\* \*\*Details:\*\* Switched from conservative "sell-through" to aggressive "sell-in" revenue recognition for distributors. Masked underlying revenue decline (sales flat \*with\* the change).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* DSO increased (50 to 60 days) despite flat reported sales.

\* \*\*Footnotes/MD&A:\*\* Identify and understand impact of change in revenue recognition policy (sell-in vs sell-through).

\*\*15. Informix Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Premature revenue recognition (incomplete product). (EM #1)

\* \*\*Details:\*\* Shipped non-functional "beta" code end-Q4 1996, recognized revenue then instead of Q3 1997 when working code delivered.

\* \*\*Discovery / Red Flags:\*\* (Hard to detect without specific customer/product knowledge unless significant returns/allowance issues surface later).

\* \*\*FSA:\*\* Monitor sales returns & allowances, warranty claims. Analyze DSO.

\*\*16. Kendall Square Research Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Premature revenue recognition (contingent payment). (EM #1)

\* \*\*Details:\*\* Recognized revenue before customer funding secured; side letters voided sales.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track DSO. CFFO lag NI.

\* \*\*Footnotes/MD&A:\*\* Scrutinize revenue recognition policy for contingencies, especially for large contracts or specific customer types (e.g., research institutions). Look for side agreement disclosures (rare).

\*\*17. Stirling Homex Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Premature revenue recognition (contingent payment). (EM #1)

\* \*\*Details:\*\* Recognized revenue on preliminary HUD commitment, not final approval.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track DSO. CFFO lag NI.

\* \*\*Footnotes/MD&A:\*\* Scrutinize revenue recognition policy related to government funding/approvals.

\*\*18. Openwave Systems Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Accelerating revenue via policy change; Manipulating non-GAAP earnings definition. (EM #1; KM #1)

\* \*\*Details:\*\* Changed policy to recognize revenue earlier for questionable customers. Changed non-GAAP earnings definition twice (excl stock comp, then hedging) to boost reported results ($0.04 each time).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify changes in revenue recognition policy (collectibility assessment).

\* \*\*Release/Call:\*\* Track definition of non-GAAP metrics (like "non-GAAP net income") quarter-to-quarter; identify changes and quantify impact. Question justification for changes.

\*\*19. Trex Company, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Accelerating revenue via extended payment terms. (EM #1)

\* \*\*Details:\*\* Used "early buy program" with extended terms, likely pulling sales forward.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Sharp increase in receivables/DSO.

\* \*\*Footnotes/MD&A / Release/Call:\*\* Look for disclosures about special sales programs, changes in payment terms.

\*\*20. AIG (American International Group)\*\*

\* \*\*Reasons (Short Thesis):\*\* Facilitating fraud; Sham transactions manipulating own reserves. (EM #2)

\* \*\*Details:\*\* Sold "finite insurance" lacking risk transfer (e.g., to Brightpoint). Used sham reinsurance with Gen Re ($500M round trip) to boost loss reserves, creating cookie jar.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Understand nature of finite reinsurance (potential lack of risk transfer).

\* \*\*FSA:\*\* Analyze reserve adequacy trends (loss ratios, reserve levels vs. premiums/peers). Look for large, unusual reinsurance transactions.

\* \*\*Footnotes/MD&A:\*\* Scrutinize reinsurance disclosures, particularly large transactions or those involving potential lack of risk transfer. Analyze reserve rollforwards.

\*\*21. Brightpoint Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Using sham transaction (finite insurance) to hide losses. (EM #2)

\* \*\*Details:\*\* Used retroactive AIG policy lacking risk transfer to book $15M "insurance recovery" offsetting operating loss.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze source of large, unusual income items (like insurance recovery).

\* \*\*Footnotes/MD&A:\*\* Scrutinize disclosures related to insurance claims/recoveries, especially if material or retroactive. Question risk transfer.

\*\*22. Molten Metal Technology, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Misclassifying non-revenue receipts as revenue. (EM #2)

\* \*\*Details:\*\* Recorded $14M R&D funding from JV partner as revenue.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze sources of revenue, especially for development-stage companies.

\* \*\*Footnotes/MD&A:\*\* Understand nature of JV agreements and cash flows. Identify related-party transactions.

\*\*23. L.A. Gear, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Misclassifying non-revenue receipts as income. (EM #2)

\* \*\*Details:\*\* Improperly classified uncollected vendor credits as income.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze sources of income/revenue. Look for unusual "other income" or reductions in COGS/SG&A.

\* \*\*Footnotes/MD&A:\*\* Look for disclosures regarding vendor allowances, credits, rebates.

\*\*24. Education Alternatives Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Grossing up revenue inappropriately. (EM #2)

\* \*\*Details:\*\* Recognized entire school budget managed as revenue, not just management fee. Caused absurd revenue growth ($3M to $214M).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Compare revenue scale/growth to peers/industry norms (e.g., consulting firms). Does it make sense given company size/operations?

\* \*\*FSA:\*\* Analyze revenue recognition policy. Profit margins likely very thin if grossing up.

\* \*\*Footnotes/MD&A:\*\* Understand the nature of contracts and basis for revenue recognition.

\*\*25. Priceline.com Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Potential inappropriate gross vs. net revenue recognition. (EM #2)

\* \*\*Details:\*\* Records some "name your price" revenue on gross basis.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Compare revenue recognition policy (gross vs. net) with peers acting as agents (e.g., eBay, other travel agencies). Assess inventory risk.

\* \*\*Footnotes/MD&A:\*\* Read revenue recognition policy carefully regarding agent vs. principal considerations.

\*\*26. IBM (International Business Machines Corp.)\*\*

\* \*\*Reasons (Short Thesis):\*\* Misleading classification hiding operational weakness. (EM #3)

\* \*\*Details:\*\* Included $4.057B gain on sale as reduction of SG&A.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Huge, unexplained drop in SG&A% of sales. Operating income growth significantly outpacing revenue growth.

\* \*\*Footnotes/MD&A:\*\* Read footnotes detailing components of SG&A or explaining large variances. Identify gains on asset/business sales and verify their classification. Recalculate operating income excluding the gain.

\*\*27. Intel Corp. / Marvell Technology Group Ltd. (Deal)\*\*

\* \*\*Reasons (Short Thesis - Intel):\*\* Structuring deal to shift gain to recurring revenue. (EM #3)

\* \*\*Details:\*\* Sold unit to Marvell at discount + secured inflated price on future supply agreement.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Analyze disclosures on asset/business sales \*and\* concurrent supply agreements. \*Crucially, check the counterparty's (Marvell's) disclosure\* which revealed the inflated pricing.

\* \*\*Context:\*\* Question complex deal structures involving simultaneous buy/sell agreements.

\*\*28. Marvell Technology Group Ltd.\*\*

\* \*\*Reasons (Short Thesis):\*\* Using acquisition accounting reserve to manage future earnings. (EM #5)

\* \*\*Details:\*\* Created liability reserve in purchase accounting (Intel deal) to offset future inflated COGS from supply agreement. No expense hit to create reserve.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Analyze purchase price allocation in acquisitions, specifically identifying unusual liability reserves created. Track subsequent COGS margins and reserve utilization. \*Crucially, understand the link to the concurrent supply agreement disclosed.\*

\*\*29. Alcatel (Alcatel-Lucent)\*\*

\* \*\*Reasons (Short Thesis):\*\* Recurring "one-time" charges likely hiding operating expenses. (EM #3, #7)

\* \*\*Details:\*\* Recorded restructuring charges almost every quarter for years.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track frequency and magnitude of restructuring/one-time charges over multiple years. Adjust operating income by adding back these persistent charges to see underlying trend.

\* \*\*Context:\*\* Question the "non-recurring" nature of frequently recurring items.

\*\*30. Boston Chicken, Inc. (Boston Market)\*\*

\* \*\*Reasons (Short Thesis):\*\* Masking core losses with non-operating income classified as revenue. (EM #3)

\* \*\*Details:\*\* Included interest income/fees from struggling franchisees (effectively non-operating) in revenue line.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze revenue components if disclosed. Compare profitability of company stores vs. franchisor income. Assess health of franchisees (disclosed losses). CFFO lag NI likely.

\* \*\*Footnotes/MD&A:\*\* Read revenue recognition policy. Understand sources of revenue (royalties vs interest/fees). Scrutinize relationship/transactions with franchisees.

\*\*31. Medaphis Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Misclassifying investment income as revenue. (EM #3)

\* \*\*Details:\*\* Included JV equity income ($12.5M) in revenue.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze sources of revenue growth. Compare operating income growth to revenue growth (OpInc inflated 108% vs Sales 10%).

\* \*\*Footnotes/MD&A:\*\* Identify equity method investments and ensure income is classified below the line, not as revenue.

\*\*32. Oracle Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Manipulating accounting method (equity vs cost) to avoid recognizing losses. (EM #3)

\* \*\*Details:\*\* Put affiliate (Liberate) shares in trust to switch from equity to cost method just as losses ballooned.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify changes in accounting method for significant investments. Question the timing and justification, especially if it coincides with deteriorating performance of the investee. Understand the economic substance vs. accounting form of structures like trusts.

\*\*33. AOL (America Online / AOL Time Warner)\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive capitalization/amortization; "Big bath" charge; Manipulating subscriber counts. (EM #4, #7; KM #1)

\* \*\*Details:\*\* Capitalized solicitation costs (DSAC), extended amortization (12->24mo), then wrote off entire balance ($385M). Inflated subscriber count via unactivated bulk subs.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track DSAC asset growth vs. revenue; CFFO lag NI during capitalization phase. Analyze impact of amortization period change. Question "big bath" charge justification and impact on future earnings.

\* \*\*Footnotes/MD&A:\*\* Scrutinize capitalization policies (advertising costs). Identify changes in amortization periods. Analyze restructuring charges. Understand subscriber count definitions and sources.

\* \*\*Context:\*\* Question aggressive accounting changes.

\*\*34. Excel Communications, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Aggressive capitalization change pre-IPO. (EM #4)

\* \*\*Details:\*\* Switched commission accounting from expensing to capitalizing pre-IPO, boosting earnings 105%.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Read IPO prospectus carefully for recent accounting policy changes and their impact.

\* \*\*Context:\*\* Be skeptical of significant accounting changes just before an IPO.

\*\*35. Lucent Technologies Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Huge pension income masking operating losses; Reserve manipulation. (EM #5, #7)

\* \*\*Details:\*\* Large pension \*income\* ($1.1B+ 2004) offset operating losses. Used excess restructuring reserves ($442M) to boost earnings.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze operating income trend excluding pension income/expense.

\* \*\*Footnotes/MD&A:\*\* \*Read the pension footnote carefully.\* Identify components of pension expense/income, quantify impact on earnings. Analyze restructuring charges and subsequent reserve activity/margin impact.

\*\*36. Syntax-Brillian Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Suspicious related-party deals; Unusual assets; Bogus vendor credits driving profits. (EM #2, #4, #5)

\* \*\*Details:\*\* Revenue reliance on related party (SCHOT). Unusual, surging assets ("tooling/inventory deposits") with related supplier (Kolin). Massive, non-cash vendor credits ($214M vs $142M GP) from Kolin boosting margins.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Negative CFFO despite reported profits. Analyze gross margins – boosted by credits? Track unusual asset accounts on common-size balance sheet.

\* \*\*Footnotes/MD&A:\*\* \*Scrutinize related-party transactions\* (revenue concentration, asset deposits, vendor credits). Quantify impact of vendor credits on COGS/margins. Question nature of unusual asset accounts.

\*\*37. Affiliated Computer Services Inc. (ACS)\*\*

\* \*\*Reasons (Short Thesis):\*\* Accelerating capitalization rate; Misleading organic growth metric. (EM #4; KM #1)

\* \*\*Details:\*\* Rate of capitalized software costs surged (8% to 21% capex). "Internal growth" definition improperly included some acquired revenue.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track capitalized software % of capex or revenue.

\* \*\*Footnotes/MD&A:\*\* Analyze software capitalization policy.

\* \*\*Release/Call:\*\* \*Read the definition\* of non-GAAP metrics like "internal growth" carefully; challenge assumptions that seem illogical.

\*\*38. THQ Inc. vs. Electronic Arts Inc.\*\*

\* \*\*Reasons (Short Thesis - N/A, Comparison):\*\* Differing capitalization policies affect comparability. (EM #4)

\* \*\*Details:\*\* THQ capitalized software costs earlier/more aggressively than EA.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Understand that accounting policies can differ even within an industry.

\* \*\*FSA/Footnotes:\*\* Compare capitalization policies and capitalized asset balances/amortization when analyzing peers.

\*\*39. Time Warner Telecom Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Stretching depreciation life boosts income non-operationally. (EM #4)

\* \*\*Details:\*\* Extended fiber asset life (15->20 years), boosting earnings $4.9M/qtr.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify changes in accounting estimates (depreciable lives) and quantify the earnings impact. Subtract this non-operational boost when assessing core earnings growth.

\*\*40. Fannie Mae (Federal National Mortgage Association)\*\*

\* \*\*Reasons (Short Thesis):\*\* Improper loan cost amortization; Earnings smoothing via derivative misaccounting; Incentive issues. (EM #4, #6; Breeding Ground)

\* \*\*Details:\*\* Failed to amortize loan premiums/costs properly (SFAS 91) to hit bonus targets. Misclassified derivative hedges (SFAS 133) to defer losses/smooth earnings ($7.9B derivative losses hidden).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Analyze accounting for loan fees/premiums/discounts (SFAS 91 compliance). Scrutinize derivative accounting policies, hedge effectiveness testing, and mark-to-market adjustments reported in OCI vs. Income Statement. Look for large OCI balances related to derivatives.

\* \*\*Context:\*\* Understand management compensation incentives.

\*\*41. Orion Pictures Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Slow amortization/write-off of film costs hiding losses. (EM #4)

\* \*\*Details:\*\* Amortized film costs too slowly; delayed write-offs.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Compare film amortization policies vs peers. Watch for large, delayed write-offs of capitalized film costs. Analyze profitability by film vintage if possible.

\* \*\*Footnotes/MD&A:\*\* Understand policy for capitalizing and amortizing film costs, including estimated revenue streams/lives.

\*\*42. Vitesse Semiconductor Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Failure to reserve/expense appropriately; Faked receivable sales inflating CFFO. (EM #4; CF #1)

\* \*\*Details:\*\* Recorded zero inventory obsolescence expense (vs $30.5M prior year). Slashed bad debt expense ($14.3M -> $1.9M). Faked sale of bad receivables (retained risk) to boost CFFO.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze expense trends: Bad Debt Expense % Sales, Inventory Obsolescence Expense % COGS or Sales. Look for sharp, unexplained drops. Compare CFFO drivers vs peers/history (receivable sales).

\* \*\*Footnotes/MD&A:\*\* Analyze reserve adequacy (ADA, Inventory reserves). Look for receivable sale disclosures and assess risk transfer.

\*\*43. Coldwater Creek Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Inventory buildup signaling future margin pressure. (EM #4)

\* \*\*Details:\*\* Inventory surged (DSI 78 -> 98 days), growth (67%) far exceeded expected revenue growth (24%).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Calculate and track DSI trend. Compare inventory growth rate to management's forward revenue guidance.

\* \*\*Context:\*\* Question management justifications for inventory builds if they conflict with growth expectations.

\*\*44. Scholastic Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Declining reserves artificially boosting earnings. (EM #4)

\* \*\*Details:\*\* ADA % AR fell (24.1% -> 20.4%). Other reserves also reduced. Boosted OpInc ~15%.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Calculate and track reserve levels (ADA % AR, Inventory Reserve % Inventory) over time. Quantify earnings impact of reserve reductions. \*Be wary if multiple reserves decline simultaneously.\*

\*\*45. New Century Financial Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Insufficient loan loss reserves hiding credit deterioration; Misleading metric presentation. (EM #4; KM #2)

\* \*\*Details:\*\* Reduced loan loss allowance Sept 2006 despite rising subprime issues, boosting EPS 58%. Changed release presentation (combined reserves) to mask the decline.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Calculate and track Loan Loss Allowance % Nonperforming Loans (or % Total Loans) vs. peers and vs. credit quality trends (delinquencies, charge-offs). Question reserve decreases when credit quality worsens.

\* \*\*Release/Call:\*\* \*Compare presentation consistency\* quarter-to-quarter. If metrics/lines are combined or definitions change, investigate why and recalculate based on prior methodology using 10-Q/K data.

\*\*46. Friedman, Billings, Ramsey & Co. (FBR)\*\*

\* \*\*Reasons (Short Thesis):\*\* Delaying investment impairment charges. (EM #4)

\* \*\*Details:\*\* Delayed recognizing impairment on investments during downturn.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA/Footnotes:\*\* Compare carrying value of investments (esp. Level 2/3 assets) to market indicators during downturns. Question lack of impairment charges when peers are taking them or market conditions warrant.

\*\*47. Rent-Way, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Failing to record expenses. (EM #5)

\* \*\*Details:\*\* Stopped booking vendor invoices weeks before year-end ($127M hidden).

\* \*\*Discovery / Red Flags:\*\* (Difficult to detect contemporaneously without internal info).

\* \*\*FSA:\*\* Post-discovery, would see jump in expenses/drop in margins in restated/corrected periods. Potential unusual fluctuations in AP/Accrued Expenses if tracked closely.

\*\*48. Sunrise Medical Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Sham vendor rebate transaction hiding expense/boosting income. (EM #5)

\* \*\*Details:\*\* Booked $1M rebate tied to future price increase as current expense reduction.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Look for unusual negative expenses or large reductions in expense lines.

\* \*\*Footnotes/MD&A:\*\* Scrutinize disclosures on vendor rebates/allowances, especially if material or linked to future commitments. Question cash inflows from vendors.

\*\*49. Options Backdating (Broadcom, UnitedHealth, general)\*\*

\* \*\*Reasons (Short Thesis):\*\* Unrecorded compensation expense overstating earnings; Governance failure. (EM #5 - King of Shenanigans)

\* \*\*Details:\*\* Granted options with strike prices set to historical lows, failed to record required compensation cost.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context/Statistical Analysis:\*\* Analyze timing of option grants relative to stock price movements (consistent grants near price lows are suspicious). Compare grant dates to news releases. (Pioneered by academic research, e.g., Erik Lie).

\* \*\*Footnotes/MD&A:\*\* Examine option grant disclosures, timing, pricing.

\*\*50. Dell Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Post-quarter-end reserve manipulation to meet targets. (EM #5)

\* \*\*Details:\*\* Adjusted warranty/bonus accruals after quarter closed to hit numbers.

\* \*\*Discovery / Red Flags:\*\* (Very difficult pre-disclosure without internal info).

\* \*\*Context:\*\* Suspiciously consistent results vs peers/industry.

\* \*\*FSA:\*\* Monitor reserve adequacy trends (warranty % revenue, bonus % revenue/headcount) for unusual changes, though manipulation was post-close.

\*\*51. Columbia Gas Systems Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Inadequate disclosure of damaging off-balance-sheet commitments. (EM #5)

\* \*\*Details:\*\* Failed to highlight massive "take or pay" gas contracts at above-market prices.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* \*Read the Commitments and Contingencies footnote carefully.\* Identify and assess the potential impact of off-balance-sheet obligations like purchase commitments, especially long-term or fixed-price ones in volatile commodity markets.

\*\*52. Navistar International Corp.\*\*

\* \*\*Reasons (Short Thesis):\*\* Reducing pension expense via assumption change. (EM #5)

\* \*\*Details:\*\* Changed life expectancy assumption, reducing pension expense $26M.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify changes in pension actuarial assumptions (life expectancy, mortality, compensation growth) and quantify impact.

\*\*53. Rent-A-Center Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Reducing self-insurance expense via assumption change; Misleading EBITDA. (EM #5; KM #1)

\* \*\*Details:\*\* Changed self-insurance actuarial assumptions, boosting earnings ($0.24-0.30 impact). Excluded rental merchandise depreciation (COGS equivalent) from EBITDA.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify changes in self-insurance assumptions/methodology and quantify impact.

\* \*\*Release/Call:\*\* Read definition of non-GAAP metrics like EBITDA; assess if appropriate for the business model (e.g., excluding core costs).

\*\*54. Dollar Thrifty Automotive Group, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Reducing multiple expenses via assumption changes. (EM #5)

\* \*\*Details:\*\* Changed self-insurance assumptions ($0.19 boost) and reduced ADA ($0.10 boost).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA/Footnotes:\*\* \*Be wary if multiple reserves/accruals move favorably at once.\* Quantify impact of assumption changes for self-insurance and ADA.

\*\*55. H.J. Heinz Company\*\*

\* \*\*Reasons (Short Thesis):\*\* Shifting expenses earlier to smooth earnings. (EM #7)

\* \*\*Details:\*\* Subsidiary prepaid expenses, solicited/booked vendor bills early.

\* \*\*Discovery / Red Flags:\*\* (Difficult without internal info).

\* \*\*FSA:\*\* Look for unusual stability in margins/earnings. Potential fluctuations in prepaid expenses or accrued liabilities.

\*\*56. Microsoft Corp.\*\*

\* \*\*Reasons (Short Thesis - Potential):\*\* Possible earnings smoothing via deferred revenue manipulation. (EM #6)

\* \*\*Details:\*\* Huge buildup then stabilization of unearned revenue during period of regulatory scrutiny. Policy change later released some revenue.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track Deferred/Unearned Revenue balance (absolute and % Revenue) over time. Question large, sustained buildups or abrupt changes in trend.

\* \*\*Footnotes/MD&A:\*\* Understand drivers of deferred revenue. Identify revenue recognition policy changes and their impact.

\* \*\*Context:\*\* Consider external pressures (like antitrust) that might incentivize smoothing.

\*\*57. W. R. Grace & Co.\*\*

\* \*\*Reasons (Short Thesis):\*\* Earnings smoothing via reserves hiding volatility. (EM #6)

\* \*\*Details:\*\* Deferred windfall income via >$50M reserves, smoothing reported growth (23-37% vs actual -8% to +61%).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Question unusually smooth earnings growth in a potentially volatile business/period. Analyze reserve trends (rollforwards if available). Look for large "change in estimate" releases.

\* \*\*Footnotes/MD&A:\*\* Scrutinize reserve creation and release activity.

\*\*58. Freddie Mac (Federal Home Loan Mortgage Corp.)\*\*

\* \*\*Reasons (Short Thesis):\*\* Earnings smoothing via derivative misaccounting hiding volatility. (EM #6)

\* \*\*Details:\*\* Improper SFAS 133 accounting deferred windfall gains to smooth earnings; masked volatility (reported +63%/+39% vs actual -14%/+220% growth).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Question unusually smooth earnings in a volatile interest rate environment for a financial institution heavily using derivatives.

\* \*\*Footnotes/MD&A:\*\* Scrutinize derivative accounting policy, hedge effectiveness, large OCI balances, and mark-to-market adjustments.

\*\*59. General Electric Co. (GE)\*\*

\* \*\*Reasons (Short Thesis):\*\* Improper derivative accounting to meet targets/maintain streak. (EM #6; Breeding Ground)

\* \*\*Details:\*\* Used improper accounting for interest rate swaps (post-quarter end change) to avoid $200M charge and maintain earnings streak.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Be skeptical of exceptionally long, uninterrupted earnings streaks.

\* \*\*Footnotes/MD&A:\*\* Scrutinize derivative accounting, especially if complex or involving changes close to reporting dates. (Specifics here were hard to spot pre-SEC action).

\*\*60. Washington Mutual Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Questionable hedging gains suggesting speculation. (EM #6)

\* \*\*Details:\*\* Reported "economic hedge" gains ($1.6B) far exceeding underlying asset loss ($500M).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA/Footnotes:\*\* Analyze gains/losses reported from hedging activities. Question large net gains, especially if labeled "economic" or "ineffective," or if they significantly exceed losses on the hedged item. Assess if activity looks more like speculation than hedging.

\*\*61. 3Com Corp. / U.S. Robotics Corp.\*\*

\* \*\*Reasons (Short Thesis - For 3Com post-merger):\*\* Unsustainable boost from pre-acquisition manipulation by target. (EM #6, #7)

\* \*\*Details:\*\* Target (USR) likely held back revenue and took large charge pre-closing, benefiting 3Com's initial results.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze target company's financial results (revenue, margins, charges) in the quarter(s) immediately preceding acquisition close. Look for sharp revenue drops or large, unusual charges. Adjust acquirer's pro forma/forward estimates accordingly.

\*\*62. Computer Associates / Platinum Tech.\*\*

\* \*\*Reasons (Short Thesis - CA post-merger):\*\* Potential unsustainable boost from target's pre-acquisition revenue dip. (EM #6)

\* \*\*Details:\*\* Target (Platinum) revenue plunged sharply pre-acquisition.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze target's results pre-acquisition (as above). Question management explanations if revenue drop seems excessive even considering deal disruption.

\*\*63. Cisco Systems, Inc.\*\*

\* \*\*Reasons (Short Thesis - Post write-off):\*\* Future margin inflation risk from massive inventory write-off. (EM #7)

\* \*\*Details:\*\* Huge $2.25B write-off; potential to sell written-down inventory later at inflated margins.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Monitor gross margins carefully in periods following large inventory write-offs. Look for unexpected margin expansion.

\* \*\*Context:\*\* Question magnitude of write-offs (>100% quarterly COGS).

\* \*\*Release/Call:\*\* Listen for comments suggesting written-off inventory might still be sold.

\*\*64. Toys 'R' Us, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Bundling normal costs into restructuring charge, boosting future operating income. (EM #7)

\* \*\*Details:\*\* Large charge included $184M for "inventory repositioning."

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze components of restructuring charges. Assess if items like inventory markdowns/disposals seem like normal operating costs shifted below the line. Monitor future COGS/margins.

\*\*65. Cardinal Health, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Unsustainable CFFO boost from selling receivables. (CF #1)

\* \*\*Details:\*\* Sold $800M AR; drove CFFO growth via $1.1B swing on SCF.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers: identify large positive swings from AR changes.

\* \*\*Footnotes/MD&A / Release/Call:\*\* Look for disclosures quantifying receivable sales and assess impact on CFFO growth sustainability.

\*\*66. Sanmina-SCI Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Stealth sale of receivables driving CFFO / masking DSO. (CF #1; KM #2)

\* \*\*Details:\*\* Sold $224M AR (up from $84M), driving CFFO and lowering reported DSO. Disclosure buried.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers (AR swing). Calculate adjusted DSO including sold AR.

\* \*\*Footnotes/MD&A:\*\* Search carefully for receivable sale/securitization disclosures, especially amounts outstanding/with recourse.

\* \*\*Disclosure Quality:\*\* Note buried/delayed disclosure vs. prominence of CFFO/DSO claims in release.

\*\*67. Global Crossing Ltd.\*\*

\* \*\*Reasons (Short Thesis):\*\* Boomerang deals inflating CFFO; Misleading metrics; General desperation. (CF #2; KM #1; CF #1)

\* \*\*Details:\*\* Boomerang deals shifted cash paid to Investing, boosting CFFO. Used misleading EBITDA metrics excluding normal costs. Sold receivables pre-bankruptcy.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify and analyze disclosures on reciprocal capacity swaps (boomerangs). Understand cash flow classification used. Look for receivable sales.

\* \*\*Release/Call:\*\* Scrutinize definitions of non-GAAP metrics; identify excluded costs. Question multiple layers of "adjusted" metrics.

\* \*\*Context:\*\* Be wary of complex, reciprocal deals in struggling industries.

\*\*68. Netflix Inc.\*\*

\* \*\*Reasons (Short Thesis - Comparability Issue):\*\* Inflated CFFO relative to peers due to classification difference. (CF #2)

\* \*\*Details:\*\* Classifies DVD purchases (inventory equivalent) as Investing outflow.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Identify large outflows in Investing section labeled "Acquisitions of DVD library" or similar. Compare classification policy vs peers (e.g., Blockbuster changed to Operating). Adjust CFFO/FCF for comparability by subtracting DVD purchases.

\*\*69. Cephalon, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Masking negative CFFO by classifying intangible purchases as Investing. (CF #2)

\* \*\*Details:\*\* $1B spent on patent/rights classified as Investing outflows ("acquisitions").

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Identify large outflows in Investing section for intangible asset purchases (patents, licenses, rights). Adjust CFFO/FCF by subtracting these if considered core operating need (like R&D substitute).

\* \*\*Context:\*\* Understand business model (acquire vs develop drugs).

\*\*70. Biovail Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Avoiding Operating outflow via non-cash acquisition structure. (CF #2)

\* \*\*Details:\*\* Acquired drug rights via notes payable; subsequent payments classified as Financing outflow.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* \*Look for "Supplemental Cash Flow Information"\* or non-cash transaction disclosures. Identify acquisitions made with debt/notes. Track subsequent debt repayments (Financing outflows) related to these acquisitions and consider their operating nature.

\*\*71. Tenet Healthcare Corporation\*\*

\* \*\*Reasons (Short Thesis):\*\* Boosting CFFO via disposal structuring (retaining AR). (CF #3)

\* \*\*Details:\*\* Sold hospitals but kept AR ($394M example), shifting collection inflow to Operating.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Look for disclosures related to asset/business sales detailing assets excluded (like AR) or retained. Quantify impact on Investing vs Operating inflows. Clear disclosure provided.

\*\*72. The Home Depot Inc.\*\*

\* \*\*Reasons (Short Thesis - Sustainability):\*\* Unsustainable CFFO boost from working capital squeeze. (CF #4)

\* \*\*Details:\*\* Stretched payables (DSP 22 -> 34 days) and cut inventory levels under new CEO.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers (large positive swings from AP, Inventory). Calculate and track DSP, DSI trends. Recognize boost is likely one-time.

\* \*\*Footnotes/MD&A:\*\* Read "Liquidity and Capital Resources" section for management commentary on WC drivers of CFFO. Clear disclosure provided.

\*\*73. Advance Auto Parts / AutoZone / Pep Boys\*\*

\* \*\*Reasons (Short Thesis - Comparability/Quality):\*\* AP financing; Inconsistent classification affects CFFO. (CF #4)

\* \*\*Details:\*\* Used AP financing with different SCF classifications (Operating vs Financing).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Look for disclosures regarding AP financing programs. Understand the SCF classification used. Adjust CFFO for comparability (treat consistently as Financing).

\*\*74. Callaway Golf Company\*\*

\* \*\*Reasons (Short Thesis - Sustainability):\*\* Unsustainable CFFO boost from tax item. (CF #4)

\* \*\*Details:\*\* $55.8M swing from tax refunds/settlements drove CFFO growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers; identify large swings related to taxes payable/receivable or deferred taxes.

\* \*\*Footnotes/MD&A:\*\* Look for explanations of tax line items/changes.

\*\*75. EDS (Electronic Data Systems Corp.)\*\*

\* \*\*Reasons (Short Thesis - Sustainability):\*\* Unsustainable CFFO boost from large prepayment. (CF #4)

\* \*\*Details:\*\* $200M prepayment drove CFFO growth (>100% YoY growth); inadequate disclosure.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers; look for large swings in deferred revenue.

\* \*\*Footnotes/MD&A:\*\* Search for disclosures on customer prepayments, especially if material. Assess disclosure adequacy relative to impact.

\*\*76. Silicon Graphics, Inc. (SGI)\*\*

\* \*\*Reasons (Short Thesis):\*\* Desperate, unsustainable WC manipulation pre-bankruptcy. (CF #4)

\* \*\*Details:\*\* Used discounts for early collection, delayed vendor payments, timed inventory purchases.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Volatile DSO/DSP/DSI trends. Negative CFFO/FCF. High leverage.

\* \*\*Footnotes/MD&A:\*\* Read "Liquidity" section carefully for signs of aggressive cash management tactics, strain. Clear disclosure provided.

\* \*\*Context:\*\* Company known to be struggling financially.

\*\*77. UTStarcom Inc.\*\*

\* \*\*Reasons (Short Thesis - Sustainability, Quality):\*\* Aggressive WC management boosting CFFO temporarily; Hiding AR. (CF #4; KM #2)

\* \*\*Details:\*\* CFFO surge driven by AR drop + AP jump (incl. foregoing discounts). Unsustainable. Also accepted notes instead of AR, lowering reported DSO.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Analyze SCF drivers (AR/AP swings). Analyze DSO (adjusted for notes).

\* \*\*Footnotes/MD&A:\*\* Look for commentary on WC management ("management decision"). Identify notes receivable accepted from customers.

\*\*78. Sun Microsystems, Inc.\*\*

\* \*\*Reasons (Short Thesis - Sustainability):\*\* Unsustainable CFFO boost from one-time settlement. (CF #4)

\* \*\*Details:\*\* $2B Microsoft settlement included in CFFO via NI reconciliation, driving growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Identify large one-time gain on Income Statement. Recognize its cash inflow will likely be in CFFO (indirect method) but is non-recurring. Adjust CFFO growth analysis.

\*\*79. Sirius / XM Radio\*\*

\* \*\*Reasons (Short Thesis - N/A, Comparability):\*\* Inconsistent ARPU definitions hinder analysis. (KM #1)

\* \*\*Details:\*\* Included/excluded different revenue streams in ARPU calc.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Release/Call/Filings:\*\* \*Read the definition\* of key non-GAAP metrics provided by each company. Adjust for comparability before drawing conclusions about relative performance.

\*\*80. Spansion Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Manipulating non-GAAP metric via inconsistent one-time item treatment. (KM #1)

\* \*\*Details:\*\* Included gain in EBITDA one Qtr, excluded it next Qtr, both times to show sequential growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Release/Call:\*\* Track calculation of non-GAAP metrics quarter-to-quarter. Identify one-time items and check for consistent inclusion/exclusion. Question inconsistencies.

\*\*81. General Motors Corp. (GM)\*\*

\* \*\*Reasons (Short Thesis):\*\* Manipulating non-GAAP metric via inconsistent one-time item treatment. (KM #1)

\* \*\*Details:\*\* Inconsistently excluded gains from "adjusted income."

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Release/Call:\*\* Track calculation of non-GAAP metrics. Identify one-time items and check for consistent inclusion/exclusion.

\*\*82. Trump Hotels & Casino Resorts, Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Misleading non-GAAP presentation (hiding one-time gain impact). (KM #1)

\* \*\*Details:\*\* Included $17M one-time gain in pro forma earnings/revenue without highlighting it, turning declines into growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Identify large one-time gains on Income Statement.

\* \*\*Release/Call:\*\* Compare reported pro forma results vs. GAAP. Check if material one-time items were appropriately excluded from pro forma calculation. Recalculate pro forma results excluding the gain.

\*\*83. Tellabs Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Changing DSO calculation method to mask deterioration. (KM #2)

\* \*\*Details:\*\* Switched from ending to average AR basis when ending AR surged, understating DSO increase (reported +5 vs +16 days).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Release/Call / Footnotes:\*\* \*Identify changes in the calculation methodology\* for key metrics like DSO. Recalculate using consistent method. Question justification for change, especially if it masks bad news.

\*\*84. Merck & Co., Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Reclassifying inventory potentially masking buildup/obsolescence. (KM #2)

\* \*\*Details:\*\* Moved slow-moving inventory to long-term "other assets."

\* \*\*Discovery / Red Flags:\*\*

\* \*\*FSA:\*\* Track "Other Assets" for unusual growth. Calculate DSI including the reclassified long-term inventory portion.

\* \*\*Footnotes/MD&A:\*\* Look for disclosures explaining composition of inventory or other assets, identifying reclassified amounts.

\*\*85. Tween Brands Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Creating misleading inventory metric; Flawed comparison. (KM #2)

\* \*\*Details:\*\* Highlighted new "in-store inventory" metric when total inventory surged. Used flawed YoY comparison (in-store vs prior total) to understate growth.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Be skeptical of new metrics introduced when traditional ones look bad.

\* \*\*Release/Call:\*\* Question definition and calculation of new metrics. Verify historical comparison points if possible from prior filings.

\*\*86. East West Bancorp Inc.\*\*

\* \*\*Reasons (Short Thesis):\*\* Stopping disclosure of key metrics during downturn. (KM #2)

\* \*\*Details:\*\* Stopped providing supplementary problem loan/reserve data.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Disclosure Quality:\*\* Note the disappearance of previously provided helpful disclosures, especially if it coincides with industry stress. Assume the hidden data is unfavorable.

\*\*87. American Airlines (AMR Corp.)\*\*

\* \*\*Reasons (Short Thesis):\*\* Potential shenanigans to meet debt covenants. (KM #2)

\* \*\*Details:\*\* Accounting changes (revenue rec, reserves, leases) potentially timed to help meet EBITDAR covenant temporarily.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Footnotes/MD&A:\*\* Identify key debt covenants. Analyze accounting changes/estimates around periods when covenants are tight. Assess if changes appear aimed at covenant compliance rather than economic reality.

\*\*88. Parmalat Finanziaria SpA\*\*

\* \*\*Reasons (Short Thesis):\*\* Massive fraud hiding debt/losses; Auditor dispute signals crisis. (KM #2; Breeding Ground)

\* \*\*Details:\*\* Used offshore entities, forgery etc. to hide €7.9B debt, overstate NW €13.3B. Public disagreement with auditor (Deloitte) over material transaction (Epicurum) driving earnings.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* \*Auditor disputes/refusal to certify financials are extreme red flags\*, especially involving material, opaque transactions. Public refutation of auditor by company is highly alarming.

\* \*\*FSA/Footnotes:\*\* Analyze reliance on gains from obscure offshore entities. Question complex structures. High leverage.

\*\*89. Bernard L. Madoff Investment Securities LLC\*\*

\* \*\*Reasons (Short Thesis - N/A, Fraud):\*\* Implausible returns, lack of transparency/safeguards. (Breeding Ground)

\* \*\*Details:\*\* Unusually consistent positive returns ("too good to be true"). No fees. Family structure. Tiny/unknown auditor. No independent custodian.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Returns profile defies market logic/volatility. Lack of standard fees is suspicious. Lack of institutional safeguards (known auditor, custodian) is critical failure. Assess governance structure (family).

\*\*90. Satyam Computer Services Ltd.\*\*

\* \*\*Reasons (Short Thesis):\*\* Governance/Auditor failures enabling fraud. (Breeding Ground)

\* \*\*Details:\*\* Board approved bad related-party deal (Maytas). Director independence conflict. Auditor (PwC) missed $1B+ cash fraud/forgeries.

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context/Governance:\*\* Analyze board independence, related-party transactions. Assess auditor reputation/track record. Question director conflicts. (Detecting outright forgery pre-confession extremely difficult).

\*\*91. Kanebo Ltd.\*\*

\* \*\*Reasons (Short Thesis):\*\* Auditor failure/collusion enabling fraud. (Breeding Ground)

\* \*\*Details:\*\* Long-term auditor (PwC) allegedly advised improper accounting, ignored fake sales ($2B fake profit).

\* \*\*Discovery / Red Flags:\*\*

\* \*\*Context:\*\* Be aware of risks associated with very long auditor tenure without rotation. (Difficult to detect auditor collusion externally).