Securities fraud case study

Business

Business ethics involves honesty, truthfulness and fairness. It stands for clarity and availability of information that us not considered to be a commercial secret. In this paper I will explore the case of Sears Company and Much Shelist law firm from the article from Prime Newswire dated November 26, 2002.

This article tells about Sears, Roebuck & Co. and Chicago Law Firm Much Shelist for Securities Fraud case and lead plaintiff petitions. Stated law firm was gathering petitions against this company for providing not accurate information about earning growth for the Class Period, which lasted from January 17, 2002 till October 17, 2002. The Law Firm was looking for a lead plaintiff who would be the representative party from the side of other class members in the litigation. They were looking for those who purchased stock during the class period and lost money on transactions.

There were special requirements for lead plaintiff, in particular, the member should have the typical claim to the other members and should adequately represent the class. The case with Sears was the following. Sears' earnings growth throughout the Class period was strongly growing driven by its Credits and Financial Products. Earnings growth in 2002 compared to 2001 should have been about 22%. Press releases and SEC reports of the company, which were issues during the Class period, reported that provisions for uncollectible accounts were mentioned as " adequate".

According to the complaint, it was far from being truthful information. A half of information- is not true, as well as it is not a lie. Sears didn't mention in press releases or reports increase of risk regarding uncollectible accounts and the fact that Sears was under-reserving for them, which directly inflated balance sheet and earnings. On October 17, 2002 Sears reported 15% earnings growth and reasoning this number with “$222 million increase in domestic provision for uncollectible accounts”. The result of such events was fall of stock for 32% from $33. 95 per share to 23.

15% per share during one day. The key ethical issue that Sears faced in this case was that they were not disclosing the whole information which is necessary for shareholders, their brokers and future investors to make an appropriate decision – to sell or to buy. This issue affects very much not only the stock price, but also the goodwill of the company. But still I must say that in order to analyze this case thoroughly, it would be necessary to listen and to observe opinions and points of view of both parties, as article presents just the plaintiff one. Although reputation, experience and results of Much Shelist law firm doesn’t leave any chances for Sears to justify itself. To my opinion the matter is very much significant from the standpoint that people generally trust official information and company’s reports provision, and they serves as the basic tool for decision-making process.

If such data cannot be trusted, then how people should take care of their investments- just use their intuition? I absolutely agree with actions which were taken by Much Shelist law firm, as people have already lost their money and they have to get them back as that loss was not their fault.

Sources: http://press. arrivenet. com/business/article. php/327839. html