

Double-Dip
Recession?

Enron:
The Probe Heats Up

Bush-League
Economics

America's
fastest-growing
Companies

FORTUNE

DISPLAY UNTIL SEPTEMBER 2002

You Bought.



Phil Anschutz Qwest

Henry Nicholas Broadcom

Gary Winnick Global Crossing

Steve Case AOL Time Warner

Ted Waitt Gateway

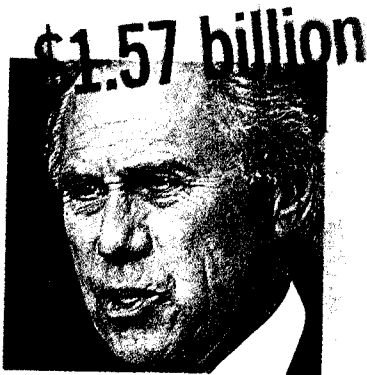
John Moores Perognon Systems

They Sold.

Since 1999 hundreds of greedy execs at America's worst-performing companies have sold \$66 billion worth of stock.

\$4.99US \$5.99CAN

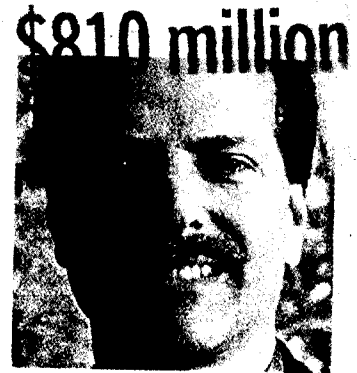




Phil Anschutz
Director of Qwest Communications



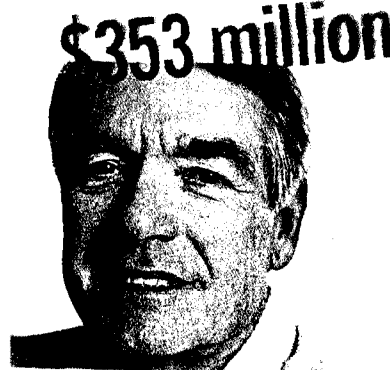
Ted Waitt
CEO of Gateway



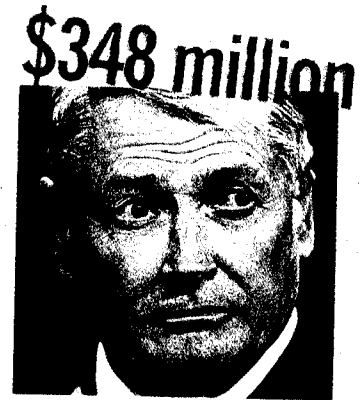
Henry Samueli
CTO of Broadcom



Steve Case
Chairman of AOL Time Warner



Charles Schwab
Chairman of Charles Schwab



John Malone
Former director of AT&T

You Bought.

OVER THE PAST MONTHS, THE PUBLIC HAS BEEN TREATED to an ever-lengthening parade of corporate villains, each seemingly more rapacious than the last. First there were the Enronites, led by the now disgraced Kenneth Lay, Fifth-Amending their way through the halls of Congress. Then there was Global Crossing's Gary Winnick, with his Drexel Burnham résumé and hundreds of miles of useless undersea cables. And of course there was Tyco CEO Dennis Kozlowski, who, despite having made hundreds of millions of dollars from Tyco stock options, stands accused by the government of shipping empty boxes out of New York to avoid the sales tax—the sales tax!—on his million-dollar paintings.

These people and a handful of others are the poster children for the "infectious greed" that Fed chairman Alan Greenspan described recently to Congress. But by now, with the feverish flush of the new economy recognizable as a symptom not of a passion but

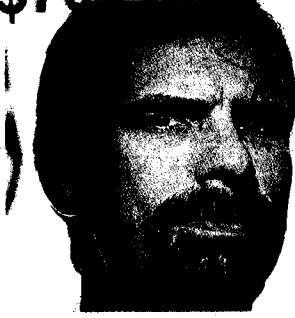
of an illness, it has also become clear that the mores and practices that characterize this greed suffused the business world far beyond Enron and Tyco, Adelphia and WorldCom.

With assistance from Thomson Financial and the University of Chicago's Center for Research in Securities Pricing, FORTUNE set out to answer an obvious question: As Lay, Winnick, Kozlowski, et al. were dumping their shares and getting rich, what were the rest of America's top executives doing? Gary Winnick, we all now know, sold some \$735 million in stock as his company was hurtling toward bankruptcy. But was this really the ultimate in millennial avarice?

In a word: no.

The not-so-secret dirty secret of the crash is that even as investors were losing 70%, 90%, even in some cases *all* of their

\$799 million



Henry Nicholas
CEO of Broadcom

\$646 million



John Moores
Chairman of Peregrine Systems

\$508 million



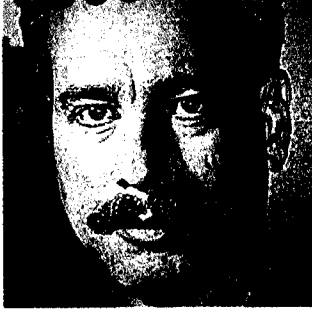
Gary Winnick
Chairman of Global Crossing

\$343 million



Craig McCaw
Director of Nextel Communications

\$308 million



Bobby Johnson
CEO of Foundry Networks

\$225 million



Bob Pittman
Former COO of AOL Time Warner

They Sold.

All over corporate America, top execs were cashing in stock even as their companies were tanking. Who was left holding the bag? You.
by MARK GIMEIN

holdings, top officials of many of the companies that have crashed the hardest were getting immensely, extraordinarily, obscenely wealthy. They got rich because they were able to take advantage of the bubble to cash in hundreds of millions of dollars' worth of stock—stock that was usually handed to them via risk-free options—at vastly inflated prices. When the bubble burst, their shareholders were left holding the bag. But, hey, they had theirs. How much did they take in? We'll get to that in a second, but first we need to explain the criteria for the list that accompanies this story. First, we looked at companies that had hit a market cap of at least \$400 million—and fallen by at least 75% from the highs they reached during the bubble years. Second, we counted insider stock sales from 1999 onward. (That's why Gary Winnick's tally comes to "only" \$508 million on our list; he had sold a ton of Global Crossing stock before 1999.) And third, we included only stock

sold by top executives and board members; the quick profits made by the venture capital firms that funded the dot-com boom were excluded. (Also excluded in all but a very few cases—largely because it's impossible to track—was stock sold by company officers after they left their jobs. For the same reason, we did not include the cost of acquiring the shares; in most cases option prices were so low that including that cost would hardly affect the totals.) What we cared about, ultimately, was a simple, straightforward thing: How much cash did the top executives at America's Losingest Companies reap by selling their shares to the investing public?

Even with these fairly narrow parameters, the numbers are astounding. Executives and directors of the 1,035 corporations that met our criteria took out, by our estimate, roughly \$66 billion. Of that amount, a total haul of \$23 billion went to 466 insiders at the 25 corporations where the executives cashed out the most. Those are the companies that make up this list.

The top 25 include some big and obvious names: Cisco (CEO John Chambers: \$239 million), for instance, and AOL Time War-

ner, parent of FORTUNE's publisher (chairman Steve Case: \$475 million). But they also include companies you would be surprised to find on a top-25 list of any kind. Executives and directors at a software maker called Ariba raked in \$1.24 billion even as its stock was falling from \$150 to around \$3. Yahoo executives reaped \$901 million in stock sales while the company's shares fell from \$250 to about \$11. InfoSpace, once touted by its founder, Naveen Jain, as on its way to becoming the first "trillion-dollar" company, makes the list. In early 2000, by which time Jain had already taken out more than \$200 million, he protested to FORTUNE that "investors ... know I am committed to our long-term success." Now Jain's "trillion-dollar" company has a stock price of around 50 cents and a market cap around \$145 million—and meanwhile, its founder has sold an additional \$200 million or so. i2 Technologies, which makes supply-chain management software, now has a total market cap that is less than CEO Sanjiv Sidhu's haul of \$447 million. Peregrine Systems is a deeply troubled software company that is on its third auditor in six months, has announced that it will re-

The Greedy Bunch



Meet the 25 companies with the greediest executives. Of the big companies whose stocks dropped 75% or more from their boom-time peak, these are the ones where

officers and directors took out the most money via stock sales from January 1999 through May 2002. An exclusive study by FORTUNE, Thomson Financial, and the University of Chicago's Center for Research in Securities Pricing.

Companies whose bigwigs

The company	The total haul
1 QWEST COMMUNICATIONS	\$2.26 billion
2 BROADCOM	\$2.08 billion
3 AOL TIME WARNER	\$1.79 billion
4 GATEWAY	\$1.27 billion
5 ARIBA	\$1.24 billion
6 JDS UNIPHASE	\$1.15 billion
7 i2 TECHNOLOGIES	\$1.03 billion
8 SUN MICROSYSTEMS	\$1.03 billion

state years of revenues, and faces delisting from Nasdaq. Its stock is below 40 cents. But not to worry. Back before anyone realized that its revenues were misstated, chairman John Moores cashed out \$646 million, enough to cover the losses of the San Diego Padres, which he also owns, for the next 85 years.

For the record, the company that tops our list is Qwest Communications, the beleaguered telecom. Company executives took down a staggering \$2.26 billion, with then-chairman Phil Anschutz alone selling almost \$1.6 billion of stock to BellSouth in May 1999. The price he got, \$47.25, was nearly \$8 a share above Qwest's market price at the time. Qwest now trades at a little more than \$1 a share. Of course, Qwest has also announced that it had inflated its revenues over the past three years.

For an ordinary investor, it is nearly impossible to look at this list and not feel ripped off. In some cases insiders clearly cheated the investment community to realize their gains—by ginning up revenue numbers that have turned out to be phony. But even putting those cases aside, the billions of dollars of insider sales make

absurd many of the rationales executives used to justify their new wealth. Take, for instance, the notion that executives were being rewarded for performance. Plainly, the executives on this list did not perform. They failed miserably; in many cases they failed even as they were bragging about how well they were doing and how much their stock would rise.

As for the idea that big stock and options grants would align the interests of shareholders and managers—that now seems equally absurd. What really took place was a breach of faith, with the insiders in effect betraying their shareholders by making sure that they themselves wound up rich no matter how badly things turned out for their companies or their investors.

Not surprisingly, most of the money was taken down at the height of the bubble, during the era of *Dow 36,000* and day-trading mania, as a grand speculative fervor swept the country. For too many executives, the easy riches to be made were hugely tempting, and the moral (and sometimes legal) niceties easily ignored. All too often, the people who ran the companies that were

took out more than \$1 billion

Biggest takers	How much they got	Details
Phil Anschutz, director Joe Nacchio, former CEO	\$1.57 billion \$230 million	As part of BellSouth's deal to buy some of Qwest, billionaire Anschutz sold this stock to BellSouth in May 1999. The stock was selling at \$39.44 per share; Anschutz got \$47.25.
Henry Samuelli, co-chairman, CTO Henry Nicholas, co-chairman, CEO	\$810 million \$799 million	Nicholas boasts that he pays Broadcom employees so little—"I get \$110,000 a year"—that they have to sell stock to pay their bills.
Steve Case, chairman Bob Pittman, former COO Jim Barksdale, director	\$475 million \$225 million \$213 million	What about ex-CEO Gerald Levin, who masterminded the AOL Time Warner merger and left last May? He didn't cash in a single share over this period.
Ted Waitt, CEO	\$1.10 billion	In June founder Waitt spent \$9.36 million to buy back two million Gateway shares trading in the \$4 range—vs. \$82.50 at the stock's peak in November 1999.
Rob DeSantis, former EVP Keith Krach, chairman Paul Hegarty, director, former CTO Edward Kinsey, former CFO	\$222 million \$191 million \$127 million \$114 million	With an unusually short post-IPO lockup period, these execs began selling their stock barely four months after Ariba went public in June 1999.
Kevin Kalkhoven, former CEO Danny Pettit, former CFO Jozef Straus, CEO, co-chairman	\$246 million ¹ \$206 million \$175 million	"I have made zero sales in 2002—zero," says Straus, who has been CEO since May 2000. "Today all my options are underwater. I need a submarine to read them."
Sanjiv Sidhu, chairman, CEO Romesh Wadhvani, vice chairman Sandeep Tungare, former director	\$447 million \$160 million \$144 million	Founder Sidhu, who still owns 27% of the company, sold most of these shares after the stock peaked at \$110 in March 2000. It now trades at less than \$1.
Bill Joy, CTO Ed Zander, former president	\$103 million \$100 million	In October 2000, Joy sold one million Sun shares—15% of his stake, he says. He adds that he sold all his other tech holdings around the same time.

\$230 million



Joe Nacchio
Former CEO of Qwest

\$175 million



Jozef Straus
CEO of JDS Uniphase

\$447 million



Sanjiv Sidhu
CEO of i2 Technologies

¹ Figures were corrected when possible, with company officials and the officers and directors involved. Amounts include sales by corporations entirely or largely controlled by the sellers, such as Phil Anschutz's Anschutz Co., Jay Walker's Walker Group, and the McGraw-Hill family, as well as trusts and stock sales by immediate family. Not included are sales and transfers of stock, sometimes linked to exotic derivatives, that are not recorded as sales by the SEC. Also not included are sales of shares where an executive returns some shares to his company to pay for options exercises. The totals here include all sales reported to the SEC, reporting which usually (but not in every case) continues until the end of the year. This number includes \$191 million sold after Kalkhoven left the company in May 2000.

GREED

the darlings of the bull market saw nothing wrong with taking a seat at the casino, selling high, and cashing out their chips. To put it another way, they got greedy.

To be sure, that wasn't true of everybody. If you look closely at the accompanying list, there are some names you will not find. David Filo, one of the two founders of Yahoo, is not there. Even as Yahoo's top executives sold hundreds of millions of dollars of stock, Filo himself sold nothing. You will also not find Gerald Levin, the former chief executive of AOL Time Warner. Say what you will about the wisdom (or lack thereof) of the AOL

Time Warner merger, you can't say that Levin saw it as a shortcut to personal enrichment. He, too, didn't cash in.

It's tempting for some to see a cultural divide between executives of the old economy and the new. But really it's a moral divide between the CEOs and the CEO speculators. "By and large for the people doing it [selling their shares], the financial component of being in those companies outweighed the executive responsibility," says Michael Ramsay, CEO of Tivo, who sold less than \$1.6 million of stock.

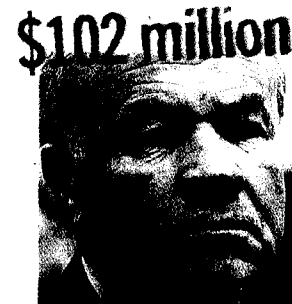
One of the most cogent explanations of what's wrong with this

"Why would I not sell? I was a shareholder like any other shareholder."

—Jozef Straus, JDS Uniphase



John Chambers
CEO of Cisco Systems



Ken Lay
Former CEO of Enron

\$600 million to \$1 billion

The company	The total haul	Biggest takers	How much they got	Details
ENRON	\$994 million	Lou Pai, former division head Ken Lay, former CEO Rebecca Mark, former division head Ken Rice, former, division head	\$270 million \$102 million \$80 million \$74 million	Where are Jeff Skilling and Andy Fastow? They cashed out just \$68 million and \$32 million worth of Enron stock, respectively.
GLOBAL CROSSING	\$951 million	Gary Winnick, chairman	\$508 million	What? Winnick got only \$508 million? Actually, he sold another \$227 million before our study's Jan. 1, 1999, start date.
CHARLES SCHWAB	\$951 million	Charles Schwab, chairman, co-CEO David Pottruck, president, co-CEO	\$353 million \$188 million	Schwab's sales "have never amounted to more than a few percentage points of his total holdings in any one year," says a spokesman.
YAHOO	\$901 million	Tim Koogle, director, former CEO Jeff Mallett, former COO Gary Valenzuela, former CFO	\$160 million \$148 million \$116 million	Co-founder Jerry Yang sold only \$30 million worth of stock over this period—and co-founder David Filo sold zero.
CISCO SYSTEMS	\$851 million	John Chambers, president, CEO Judith Estrin, former CTO	\$239 million \$72 million	What timing! Estrin cashed out \$61 million of stock in February 2000, a month before it peaked at \$80.06. She left Cisco that April.
PEREGRINE SYSTEMS	\$818 million	John Moores, chairman	\$646 million	Peregrine is restating revenues from April 1999 through December 2001—a period in which Moores dumped \$538 million of stock.
SYCAMORE NETWORKS	\$726 million	Gururaj Deshpande, chairman Dan Smith, president, CEO, director Chi Kong Shue, EVP	\$137 million \$129 million \$122 million	By the time main customer Williams Communications went bankrupt last April, these insiders had done most of their selling.
NEXTEL COMMUNICATIONS	\$615 million	Craig McCaw, director Daniel Akerson, former CEO	\$343 million \$117 million	McCaw also cashed out \$115 million from XO Communications, the telecom he founded that went belly-up last June.

ANSCHUTZ: ROBERT MORA—GETTY; WALT: MARIO TAMAI—GETTY; SAMUELI: LAURIE STEINER-HALPERIN; NICHOLAS: DAVID STRICK—CORBIS OUTLINE; MOORES: LENNY ISHLEZI—AP; WINNICK: JAMES LEVENSE—CORBIS SABA