Investor Protester

By Reg P. Wydeven
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For Christmas in 1977 my parents got me an official ‘Star Wars’ movie poster. I taped it to my wall, but the tape didn’t really stick to the plaster. Then I hung it on the door to my bedroom. When ‘The Empire Strikes Back’ came out in 1980, my parents generously got me that movie poster, too. Because it was the newest poster, it got top billing, and my ‘Stars Wars’ poster was moved to the bottom half of the door.

Needless to say, after being moved from wall to door to dorm room to apartment, my old ‘Star Wars’ poster is no longer in mint condition. I found an online movie poster store that sold “official” ‘Star Wars’ posters, and I bought a new one. Coincidentally, a few months later there was a feature article on counterfeit posters in my Star Wars Fan Club Magazine. It turns out my poster was a fake.

The site that sold me the poster apparently was unable to contact the company that printed the poster. The site claims they didn’t know the poster was an imposter, so they couldn’t help me. Basically, I was out of luck.

Unfortunately, there are a lot of victims out there like me, but instead of investing in posters, they’ve invested in the stock market. These investors now have hope, however, as the U.S. Supreme Court has agreed to hear possibly the most important securities case of the century.

Dubbed the “Roe v. Wade of securities law,” the case would potentially open the door for investors to pursue third parties, such as vendors, accounting firms or banks, for knowingly contributing to a fraudulent scheme to artificially inflate stock prices.

Investors in Charter Communications filed suit against the cable company’s vendors, Scientific-Atlanta and Motorola Inc., for allegedly participating in a scheme to inflate Charter’s stock prices. The investors claim that Charter agreed to overpay its vendors for cable boxes on the condition that the vendors would use the extra funds to purchase advertising from Charter. This additional advertising revenue allowed Charter to report higher returns.

After Charter was the subject of criminal investigations into multiple alleged fraudulent activities, its stock price plummeted. Because the destitute company could not repay its shareholders, they turned to the vendors for retribution, claiming they should be liable for furthering Charter’s scheme to overstate revenue and cash flow, artificially pumping up stock prices.

If the investors prevail in court, “secondary actors” could be exposed to potentially billions of dollars in liability for the deceptive practices of their partners. Enron shareholders are hoping the investors win, as they could then pursue the accounting firms and banks that allegedly helped perpetuate the falsification of the company’s financial statements.

Accordingly, the federal government has sided with the vendors to prevent anyone who does business with a publicly-traded company from assuming legal responsibility for that company’s financial reporting. Solicitor General Paul D. Clement asserts that such a decision could also affect “foreign companies that trade with publicly listed companies.”

Scientific-Atlanta and Motorola maintain their innocence, as they had no involvement in “the preparation or review of Charter’s financial statements” and made “no statements to Charter’s investors or accountants and had no duty to do so.”

The Supreme Court is expected to decide the case by next summer. If the investors win, I’m going to get my poster money back.