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Goldman Gave Hot IPO Shares To Top Executives of Its Clients

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Prominent executives at 21 U.S. companies personally received hot IPO shares from **Goldman Sachs Group Inc.**, which pocketed lucrative investment-banking fees from those companies during the stock market's extraordinary rise in the late 1990s, according to congressional investigators.

Two executives of major Goldman clients -- **eBay Inc.** Chief Executive Margaret Whitman and **Yahoo Inc.** co-founder Jerry Yang -- each received shares in more than 100 initial public offerings of stock managed by Goldman since 1996, and quickly resold many of the shares at a profit.

Among others, executives or directors of WorldCom Inc., Enron Corp. eToys Inc., and Global Crossing Ltd. also received IPO shares.

Ms. Whitman is a Goldman director, and eBay has paid Goldman \$8 million in investment-banking fees since 1996. Goldman also allocated shares in hot IPOs to the personal brokerage accounts of three other eBay officials: director Robert C. Kagle, who received more than 25 IPOs, including Kana Communications Inc., where he made more than 10 times his money; co-founder Jeffrey S. Skoll, who got more than 75 IPOs; and founder Pierre M. Omidyar, who received more than 40 IPOs and sold some on the same day, according to data provided by the House Financial Services Committee.

The developments are significant for Wall Street and investors amid escalating investigations into whether Wall Street rigged the IPO game to send coveted shares to favored clients who were in a position to reciprocate with lucrative banking assignments. The panel's focus on Goldman also widens the scope of regulatory and congressional scrutiny of "spinning" -- the allocation of IPOs to the personal accounts of top executives as an inducement to win investment-banking business -- beyond the initial focus on the Salomon Smith Barney unit of **Citigroup Inc.** and the Credit Suisse First Boston unit of **Credit Suisse Group**.

A Goldman spokesman called the data "an egregious distortion of the facts." The suggestion that Goldman Sachs was involved in spinning or other inappropriate practices around IPO allocations is simply wrong. ... We can find no unfairness or bias in favor of corporate officers or directors over other clients." Ms. Whitman's allocations weren't required to be disclosed in Goldman's proxy materials, he said.

Goldman determined allocations by considering factors including "the size of the account and the kind of transactions going through the account," the spokesman added. He noted that clients had to put in orders to get IPOs, unlike programs at some other firms in which some investment-banking clients were automatically allocated IPO shares.

The data show how widespread the allocations were to executives of investment-banking clients at a time when ordinary investors were routinely denied access to IPOs, and when such new issues often doubled or tripled in price on their first day of trading. Of the 22 Goldman-led IPOs doled out to executives, eight gained at least 173% on the first day of trading, the committee said. Some of the executives quickly "flipped," or sold the shares, on that first day. It isn't clear how much profit the executives made from their IPO activity.

Rep. Michael Oxley, the Ohio Republican who is the chairman of the committee, called on Wall Street to reform "these corrupt practices immediately," declaring, "there is no equity in the equities markets." And Richard Baker, the Louisiana Republican who heads the panel's capital markets subcommittee, said, "These IPOs seemed to be anything but public. A small circle of preferred clients were given vast access by the investment banks to IPO shares and reaped large profits on the sale of these shares."

Although the committee cited officials at 21 firms, it identified only 31 individuals at 17 companies; one made nearly \$2 million in IPO sale proceeds, said one person

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See Citigroup's [Aug. 26](#)⁵ and [Aug. 30](#)⁶ responses to House Financial Services Committee subpoenas about how Salomon funneled shares in hot IPOs to client firms' executives.

[Read a primer](#)⁷ on what documents included by Citigroup mean.

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ANALYZING THE ANALYSTS

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COMPANIES

Dow Jones, [Reuters](#)
[Goldman Sachs Group Inc. \(GS\)](#)

PRICE	65.55
CHANGE	-2.90
U.S. dollars	10/2

Print

at the panel.

The disclosures could have impact outside Wall Street, too. Just this week, New York Attorney General Eliot Spitzer sued five current and former top telecom executives, including former WorldCom CEO Bernard Ebbers, demanding that they return \$28 million in profits made from selling shares in hot IPOs provided by Salomon.

HOT OFFERINGS		
Some executives that received shares of IPOs from Goldman Sachs.		
NAME	COMPANY	IPOs
Margaret Whitman	eBay	100
Jeffrey Skoll	eBay	75
Pierre Omidyar	eBay	40
Edward Lenk	eToys	25
Stephen Green	Global Crossing	75
Abbott Brown	Global Crossing	10
Barry Porter	Global Crossing	12
John Legere	Global Crossing	9
Steve Valenzuela	PlanetRX.com	100
Martin Peretz	TheStreet.com	25
Jerry Yang	Yahoo	100

Note: Congressional investigators say some of the executives received more than the number indicated.

Source: U.S. House of Representatives, Committee on Financial Services

Other executives who received IPO allocations and whose companies have paid banking fees to Goldman include Edward Lenk, former CEO of eToys, who received more than 25 IPOs and whose company has paid \$5 million. Martin Peretz, former director of **TheStreet.com** Inc., received more than 25 IPOs including 50,000 shares of **Hanover Compressor** Co. His company has paid Goldman \$2 million in fees. And **iVillage** Inc. co-founder Nancy Evans got more than 50 IPO allocations; her company has paid the firm \$2 million.

The panel also detailed IPO allocations by Goldman to executives of four other companies embroiled in regulatory inquiries into other alleged improprieties, three of which have been Goldman clients. They are Tyco International Ltd., which has paid Goldman \$57 million in banking fees since 1996; Global Crossing, which has paid Goldman \$45 million in banking fees; Enron Corp., which paid Goldman \$19 million in banking fees, and WorldCom.

Recipients of Goldman IPO allocations at Tyco included former CEO L. Dennis Kozlowski, who is fighting criminal charges of avoiding state sales taxes on expensive artwork; he received 7,500 shares of Goldman's own IPO. Mark Swartz, Tyco's former chief financial officer, also received 5,000 shares of Goldman's IPO.

At Global, executives who received IPOs from Goldman include CEO John Legere, who got nine IPOs; former CEO Leo Hindery, who received 5,000 shares of Goldman's own IPO; director Stephen J. Green, who got more than 75 IPOs; former director Barry Porter, who got 12 IPOs and sold 11 within a week; and founder and former director Abbott Brown, who received 10 IPO allocations. Mr. Porter said he received the IPOs after he left the company, and made only \$10,000 in profit.

At Enron, Goldman IPO recipients include former CEO Kenneth Lay, who received 23 IPOs, director Herb Winokur, who with his wife received more than 50 IPOs, and director Robert Belfer, who got more than 40. Among other WorldCom executives who received IPOs from Goldman were Mr. Ebbers; Stiles Kellett, director and compensation-committee chairman, who received 1,000 shares of Goldman's IPO; and John Sidgmore, the company's current CEO.

eBay Inc. (EBAY)	
PRICE	53.30
CHANGE	-0.21
U.S. dollars	10/2

Yahoo! Inc. (YHOO)	
PRICE	9.48
CHANGE	-0.22
U.S. dollars	10/2

Citigroup Inc. (C)	
PRICE	29.60
CHANGE	-1.40
U.S. dollars	10/2

Credit Suisse Group ADS (CSR)	
PRICE	18.29
CHANGE	-1.76
U.S. dollars	10/2

TheStreet.com (TSCM)	
PRICE	2.14
CHANGE	0.04
U.S. dollars	10/2

Hanover Compressor Co. (HC)	
PRICE	7.93
CHANGE	-0.66
U.S. dollars	10/2

* At Market Close

Indeed, Goldman's own IPO in May 1999 was a popular vehicle for allocations to executives of the firm's banking clients. Michael Eisner, CEO of **Walt Disney** Co., received 30,000 shares. Disney has paid Goldman \$51 million in investment-banking fees since 1996. Barry Sternlicht, CEO of **Starwood Hotels & Resorts Worldwide** Inc., received a total of 17 IPOs from Goldman, including 11,000 shares of Goldman's own initial offering. And William Clay Ford, a director of **Ford Motor** Co., received 400,000 shares of Goldman's IPO; Ford has paid Goldman \$87 million in banking fees since 1996.

A Starwood spokesman noted that the company hasn't been a Goldman client, adding that the IPO shares were offered to Mr. Sternlicht because he was a "high net worth investor" with a 12-year relationship with a Goldman broker. A spokeswoman for Disney said Mr. Eisner received the IPO shares solely because of a personal banking relationship he has had with Goldman since 1989. She said this IPO was the only one Mr. Eisner had ever received and was completely unrelated to Disney business.

A Global Crossing spokeswoman said the company couldn't comment last night on any shares offered to Mr. Legere; the other executives named, she noted, have since left the company. Yahoo said the company wasn't involved in the allocations. WorldCom and Enron declined to comment.

When the executives sold their shares of the IPOs determines the extent of their profits. Many executives who received shares quickly turned around and sold them before the demand for such stock ebbed. Many less sophisticated investors bought such shares in the so-called secondary market after they already had soared in value -- and lost large sums of money.

The House panel also found that "investment-banking relationships led to overly optimistic research reports," with the firms never advising clients to sell. Instead, the panel noted, Goldman "dropped coverage of 17 of the 21 companies" whose IPOs were reviewed by the panel. The committee also found that "many companies were clearly brought to market prematurely in an effort to generate investment-banking fees. Most had insufficient assets and revenue to remain viable." Specifically, the report said, stocks of 16 of the 21 IPOs led by Goldman are down 89% or more from the IPO price. All but one of the 15 IPOs led by Credit Suisse First Boston reviewed by the committee were down at least 85%.

The renewed focus on IPO allocations follows a string of corporate, accounting and Wall Street-research scandals that have fueled investor outrage amid a steep stock-market decline that has cost those investors billions of dollars in paper losses.

-- Tom Hamburger contributed to this article

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