

Fraud Investigator Accuses General Electric of Hiding \$38-Billion in Liabilities. GE Says the Accusation Is A Fraud to Game Stock Prices

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Harry Markopolos, the man who blew the whistle on swindler Bernie Madoff, says General Electric's financial statements are a "bigger fraud than Enron". His report indicates that GE is locked into \$38-billion in future expenses that it has not disclosed, which is over 40% of the company's market capitalization. GE's long-term insurance investments are paying out \$5.27 in claims for every \$1 collected in premiums. He says GE's debt-to-equity ratio is, not 3:1, but 17:1. The company says Markopolos did not have access to the books, and the report, itself, is fraud because it was designed to plunge the price of GE stock so insiders could buy cheap and sell high later. GE stocks fell by 11% on the news. [There may be truth on both sides.] -GEG

Chief Executive Officer Larry Culp said Markopolos' 175-page report contained factual errors and constituted "market manipulation – pure and simple," because Markopolos stood to profit from short-selling tied to its release.

Short sales, or bets that a share price will fall, have risen 17% in GE stock over the past month to 110 million shares worth about \$995 million before the report came out Thursday, said Matthew Unterman, a director at S3 Partners, a financial analytics firm in New York.

In the report www.gefraud.com, Markopolos accused GE of hiding \$38 billion in potential losses and asserted that the company's cash and debt positions were far worse than it had disclosed.

"GE's true debt to equity ratio is 17:1, not 3:1, which will undermine its credit status," Markopolos said.

The report also says GE is insolvent and asserts that its industrial units have a working capital deficit of \$20 billion.

"He is selectively front-running widely reported regulatory processes and rigorous investigations without the benefit of any access to GE's books and records," GE board member and audit committee chair Leslie Seidman said in a statement, referring to Markopolos.

While investors sent GE shares sharply lower, the report echoes the assertions of some of Wall Street's more skeptical analysts, who have long raised alarms about GE's low cash flow, frequent accounting charges and writedowns, and what they describe as opaque financial reports.

Culp, the first outside leader of the company who took over in October, has made no secret of its woes.

The industrial businesses have seen a \$2.2 billion cash outflow so far this year, and Culp said last month that GE may incur cash costs of \$1.4 billion this year from the grounding of Boeing Co's (BA.N) 737 MAX jetliner. GE makes engines for the jet through a joint venture with Safran SA (SAF.PA) of France.

The report alleges that GE faces \$38 billion in future expenses that it has not disclosed. "GE's \$38 billion in accounting fraud amounts to over 40% of GE's market capitalization, making it far more serious than either the Enron or WorldCom accounting frauds," the report says.

In a statement GE said, "We remain focused on running our business every day and ... will not be distracted by this type of meritless, misguided and self-serving speculation."

GE said it "stands behind its financials" and operates to the "highest-level of integrity" in its financial reporting.

It also said Markopolos was known to work for unnamed hedge funds that typically benefit from short-selling a company's stock.

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