

San Mateo County Files Personal Lawsuit Against Lehman Brothers Executives

December 1, 2008 – San Mateo County in California had more than \$150 million invested in Lehman Brothers when the company went bankrupt. All of that money was lost. Now the county has decided that it wants some of that money back and that the best way to get it may be to file personal lawsuits against company executives who reaped huge bonuses as stockholders were taking a bath.

The suit filed by San Mateo names Lehman Brothers executives and the firm's auditor, Ernst & Young. The suit alleges that the parties named committed fraud, negligent misrepresentation and violations of both state and federal laws regarding securities transactions.

San Mateo's board of supervisors authorized the lawsuit, which names five members of the company's board of directors and six senior executives including Richard Fuld, Jr.; the company's CEO. Those named have received more than \$1 billion in bonuses from the company.

If the suite proceeds and the county wins, those named could be forced to personally pay back the county for its losses. The county has also asked for punitive damages.

The theory behind the case is that Lehman Brothers executives misrepresented the company's financial health to investors. At the same time, the company was setting aside large amounts of money to pay executive bonuses. These bonuses were tied to financial performance, giving the executives great incentive to lie according to the lawsuit.

Lehman Brothers is not the only company with an executive compensation package that is raising eyebrows. Wachovia has announced that nine of the company's executives have contracts that entitle them to large severance packages. If all of them exercised these clauses in their contracts, the company would have to pay out \$98 million in bonuses.

Wachovia was acquired last month by Wells Fargo after federal regulators pressured the firm to put itself on the auction block. The company was low on funds and would have had to be taken over by federal regulators if a private buyer had not been found.

by Jim Malmberg

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