

Board of Supervisors



COUNTY OF SAN MATEO

COUNTY GOVERNMENT CENTER • REDWOOD CITY • CALIFORNIA 94063-1655
WEB PAGE ADDRESS: <http://www.co.sanmateo.ca.us>

BOARD OF SUPERVISORS
MARK CHURCH
JERRY HILL
RICHARD S. GORDON
ROSE JACOBS GIBSON
ADRIENNE J. TISSIER

JOHN MALTBIE
COUNTY MANAGER/
CLERK OF THE BOARD

(650) 363-4653
FAX: (650) 599-1027

November 13, 2008

San Mateo County Files Suit Against Lehman Brothers Officials

Lehman Fraud and Deceit Harms Local Public Services and Programs

REDWOOD CITY, Calif. – The San Mateo County Investment Pool filed suit today against executives of failed Wall Street investment bank Lehman Brothers Holdings, Inc. and their accountants for fraud, deceit and misleading accounting practices that led to the loss of more than \$150 million in San Mateo County funds.

As alleged in the suit filed in San Francisco Superior Court, Lehman executives made repeated public statements about the company's financial strength while privately scrambling to save it from collapse. The suit names Lehman Chief Executive Richard S. Fuld, Jr., former chief financial officers Christopher M. O'Meara and Erin Callan, former president Joseph M. Gregory, certain directors, and Ernst & Young, Lehman's auditor who assisted in covering up the fraud.

"The defendants focused their efforts on trying to save their company and their jobs with little or no regard to how their egregious actions harmed those who in good faith invested in Lehman Brothers," said San Mateo County Counsel Michael Murphy. "In our view, their actions were blatantly illegal."

The San Mateo County Investment Pool consists of San Mateo County, school districts, special districts and other public agencies within the County. The Pool is managed by the San Mateo County Treasurer and has a long history of safely investing taxpayer money in highly rated investments. The Pool lost more than \$150 million when Lehman declared bankruptcy on Sept. 15, 2008.

"Top Lehman executives made public statements that the company was financially sound before they declared bankruptcy," said San Mateo County Supervisor Mark Church, chairman of the Board's Finance and Operations Committee. "There is evidence they perpetrated a fraud against investors. This isn't some sort of paper loss that is simply written off a ledger book. This hurts our school children, our roads, our necessary services."

According to Chief Deputy County Counsel John Beiers and the Complaint, some of the losses include:

- \$37 million for San Mateo County kindergarten through grade 12 public schools
- \$25 million to the San Mateo County Community College District
- \$22 million to the San Mateo County Transportation Authority

- Millions for Belmont, Brisbane, Burlingame, Daly City, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, Foster City, Woodside and other public entities

“We will aggressively pursue this litigation because we are not going to sit back and let Wall Street lies harm our schools, our transportation system and our communities,” said Adrienne J. Tissier, president of the Board of Supervisors. “We don’t want to see one teacher laid off or one student go without supplies. These defendants must be held accountable.”

As alleged in the suit, Lehman was a major participant in all aspects of the mortgage and real estate markets, including originating residential and commercial mortgages, securitizing loans and investment directly in real estate. As property values declined and mortgage defaults rose in 2006 and 2007, Lehman “expanded its real estate and mortgage portfolio” despite the fact that other investment banks such Citigroup, Merrill Lynch, Morgan Stanley, Bear Stearns and UBS booked enormous losses. Yet Lehman attempted to conceal their losses with the help of their auditors – Ernst & Young, according to the suit signed by Joseph Cotchett, the lead counsel retained by the County.

According to the suit, as Lehman publicly hid the company’s exposure to mortgage-related losses, the company managed to report record profits for fiscal year 2007 and gave lucrative bonuses to its executives. The company also raised more than \$30 billion from investors like the San Mateo County Investment Pool based on statements about the company’s financial health.

San Mateo County Supervisors Richard Gordon and Rose Jacobs Gibson joined in calling for a full investigation by Federal authorities of the allegations documented in the complaint.

Supervisor Jerry Hill, newly elected to the State Assembly, will request hearings in Sacramento on the entire issue as it affects many California public entities.

The suit was filed on behalf of the Investment Pool by the law firms of Cotchett, Pitre & McCarthy of Burlingame and Corey, Luzaich, Pliska, deGhetaldi & Nastari of Millbrae.

The complete complaint is available at www.co.sanmateo.ca.us

Contacts:

Joseph Cotchett
(650) 697-6000

Michael Murphy
(650) 363-4762

Marshall Wilson
San Mateo County Public Communications Manager
(650) 363-4153
mwilson@co.sanmateo.ca.us

-- End --