SEC Charges General Electric With Accounting Fraud

GE Agrees to Pay $50 Million to Settle SEC's Charges

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Washington, D.C., Aug. 4, 2009 — The Securities and Exchange Commission today filed civil fraud and other charges against General Electric Company (GE), alleging that it misled investors by reporting materially false and misleading results in its financial statements.

Additional Materials
- Litigation Release No. 21166
- SEC Complaint

The SEC alleges that GE used improper accounting methods to increase its reported earnings or revenues and avoid reporting negative financial results. GE has agreed to pay a $50 million penalty to settle the SEC's charges.

"GE bent the accounting rules beyond the breaking point," said Robert Khuzami, Director of the SEC's Division of Enforcement. "Overly aggressive accounting can distort a company's true financial condition and mislead investors."

David P. Bergers, Director of the SEC's Boston Regional Office, added, "Every accounting decision at a company should be driven by a desire to get it right, not to achieve a particular business objective. GE misapplied the accounting rules to cast its financial results in a better light."

The SEC uncovered the accounting violations in a risk-based investigation of GE's accounting practices. In a risk-based investigation, the SEC identifies a potential risk in an industry or at a particular issuer and develops an investigative plan to test whether the problem actually exists. In this case, the SEC identified the potential misuse of hedge accounting as a possible risk area. The SEC's investigation ultimately uncovered four separate accounting violations, and GE corrected the last of the violations in 2008.

The SEC's complaint, filed in U.S. District Court for the District of Connecticut, alleges that GE met or exceeded final consensus analyst earnings per share (EPS) expectations every quarter from 1995 through filing of its 2004 annual report. However, on four separate occasions in 2002 and 2003, high-level GE accounting executives or other finance personnel approved accounting that was not in compliance with Generally Accepted Accounting Principles (GAAP). In one instance, the improper accounting allowed GE to avoid missing analysts' final consensus EPS expectations.
The four accounting violations were:

- Beginning in January 2003, an improper application of the accounting standards to GE's commercial paper funding program to avoid unfavorable disclosures and an estimated approximately $200 million pre-tax charge to earnings.
- A 2003 failure to correct a misapplication of financial accounting standards to certain GE interest-rate swaps.
- In 2002 and 2003, reported end-of-year sales of locomotives that had not yet occurred in order to accelerate more than $370 million in revenue.
- In 2002, an improper change to GE's accounting for sales of commercial aircraft engines' spare parts that increased GE's 2002 net earnings by $585 million.

Without admitting or denying the SEC's allegations, GE agreed to the financial penalty and consented to the entry of an order permanently enjoining it from violating the antifraud, reporting, record-keeping and internal controls provisions of the federal securities laws. The SEC took into account the remedial acts taken by GE and its audit committee during the investigation, including improvements to its internal audit and controllership operations. The charges announced today conclude the SEC's investigation with respect to the company.

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