



July 2002

Dilution Factor (A recipe for disaster!)

What do Enron, Worldcom, Tyco, Omnicom and Elan have in common besides stocks that have "blown up" due to accounting quality concerns. "Excessive Dilution"!

My theory on this situation is that companies have resorted to aggressive accounting methods for many unethical and possibly illegal reasons, but one reason that has been overlooked is to minimize and possibly hide the negative effects of excessive dilution from its oldest shareholders.

Common Shares Outstanding (in Millions)			
Company Name	Fiscal Year End 1991	Fiscal Year End 2001	Dilution Percentage (Adj. For Splits)
Enron	404.9	751.6	86%
Worldcom	298.6	2965.0	893%
Tyco Intl	376.4	1935.5	414%
Omnicom	113.7	190.6	68%
Elan PLC	113.8	342.0	200%

Dow Jones Industrial Average 30 Stocks Average Cumulative Dilution 17%

This can be a good detector of companies with potential accounting problems. Simply put, if an investor wants to avoid owning companies that could be using questionable accounting practices, then stay away from companies that have total levels of dilution exceeding 70% over the last ten years.

Companies to watch:

Common Shares Outstanding (in Millions)			
Company Name	Fiscal Year End 1991	Fiscal Year End 2001	Dilution Percentage (Adj. For Splits)
JDS Uniphase	141.0	1318.0	835%
AOL	701.5	4429.0	531%
Clear Channel	118.6	598.3	405%
YAHOO!	123.0	575.5	368%
Comverse Tech	40.9	186.3	354%
Qualcomm	169.2	763.3	351%
Wells Fargo	520.7	1736.4	233%
Samina	107.5	318.8	197%
Solectron	263.9	658.2	159%
Costco	231.6	451.8	95%
EMC Corp	1206.3	2220.0	86%
Cisco Sys	4328.0	7324.0	70%

Data used is from Valueline and is adjusted for stock splits

Research conducted by Winans International