Assignment Overview and Company Data: In this exercise, you will calculate individual investor windfalls (gains) and damages resulting from the company delaying the disclosure of negative information. Company X’s stock price was $100 per share on January 1, 2010 and remained at $100 through June 29, 2010. The overall market and the company’s peer index experienced a 0% stock return on every trading day from January 1, 2010 through October 31, 2010.

- On June 30, 2010 (denoted as CD1), the company disclosed that it lost one of its major customers and its stock price decreased from $100 to $55. It turns out that the company was aware of, and legally should have disclosed this information, on April 30, 2010 (denoted as CD1*).

- On September 30, 2010 (denoted as CD2), the company disclosed that it lost another of its major customers and the company’s stock price dropped from $55 to $30. Again, it turns out that the company was aware of, and legally should have disclosed this information, on March 1, 2010 (denoted as CD2*).

Investor Data: The company had three investors during this period. On January 1, 2010, Investor A owns 10 shares, Investor B owns 90 shares, and Investor C owns 100 shares; thus, the company has 200 shares outstanding. The total number of shares outstanding does not change during our analysis period.

- **Investor A’s Shares - Purchases and Sales:**
  3/31/2010 Purchased 20 shares (30 shares owned)
  5/10/2010 Purchased 30 shares (60 shares owned)
  6/10/2010 Sold 15 shares (45 shares owned)
  8/10/2010 Purchased 40 shares (85 shares owned)
  9/10/2010 Sold 25 shares (60 shares owned)

- **Investor B’s Shares - Purchases and Sales:**
  3/31/2010 Sold 20 shares (70 shares owned)
  5/10/2010 Sold 30 shares (40 shares owned)
  6/10/2010 Purchased 15 shares (55 shares owned)
  8/10/2010 Sold 40 shares (15 shares owned)
  9/10/2010 Purchased 25 shares (40 shares owned)

- **Investor C’s Shares – Purchases and Sales:** NONE
Case questions:

1. Calculate Company X’s correct stock price on each day from January 1, 2010 through October 31, 2010.

2. Calculate the inflation per share in company’s stock price from January 1, 2010 through October 31, 2010.

3. Assuming shares purchased most recently are sold first (LIFO inventory flow assumption), calculate the economic windfalls and losses, if any, to each investor resulting from the delayed disclosure.

4. Assume the Court ruled that damages should be calculated by offsetting an investor’s windfalls against that investor’s losses but without any recovery by the company from offsetting of an investor’s windfalls in excess of that investor’s losses:

   a. Calculate the net damage award paid to each investor.

   b. What is the overall net economic effect on each investor resulting from the delayed disclosure? In this calculation, include the net economic windfalls or loss for each investor (question #3), the offset resulting from the damage award paid to each investor (questions #4a), and the effect on each investor caused by the share price reduction resulting from the damage award.