Neo Liberalism & Corporate Hegemony: A Framework of Analysis for Financial Reporting Reforms in the United States

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Neo liberalism provides the theoretical framework for our analyses of the creative accounting abuses and the subsequent political response to those abuses in the United States. We posit that in a neoliberal society, corporate hegemony reigns supreme. The objective of this study is to link neoliberal ideology with practices that created an environment that promoted unethical behavior among three financial reporting elites: corporate executives, accountants and financial analysts. We begin by examining the concept of corporate hegemony, as defined by Gramsci (1971), Dugger (1989) and other critical researchers, to provide an understanding of the conditioning environment in the United States in the 1990s. We then discuss three types of power—coercion, agenda setting and “manufactured” consent—that were used in that decade to promote the neoliberal agenda. We discuss coercive power, briefly, but we focus on agenda setting power to highlight how selected deregulatory policies impacted financial reporting and the behavior of those involved in the reporting process. We look at four companies in four different industries that the SEC has charged with reporting violations; our objective is to show that despite the neoliberal rhetoric, self interested individuals (corporate managers) benefited unduly from financial reporting manipulations and that the governance system, not a few individuals, failed. This section of the study highlights the accounting techniques used to create illusions in order to benefit the corporate elite at the expense of workers, shareholders, and the public.

We then go to a third concept of power, “manufactured consent” which Gramsci considered the most effective form of power, used both to promote the neoliberal ideology, but more importantly, to lessen the impact of the corporate scandals. Our focus here is to show how this type of power enabled neoliberals to mask the contradictions between free market ideology and events in the financial reporting sector in the late 1990s and in the early 2000s. We examine specific rhetorical strategies neoliberals used to divert attention from fundamental problems in the governance and greed to technical auditing issues and individual malfeasance. We then examine Sarbanes Oxley, which has been characterized as the only real reform generated by the scandals, to position it within the neoliberal ideology. We conclude with a discussion of the blatant injustices, wreaked by neoliberal policies in the 1990s, have not evoked cries for reforms from the public or from accounting academics in the United States. Our hope would be that modernist researchers might be swayed by “facts” of the inequities perpetrated in the 1990s, but our inclination is that “facts” do not make a significant difference to those in a hegemonic society.

Stream Critical Accounting
Neoliberalism has been called “the defining political economic paradigm of our lives; it refers to the policies and processes by which a relative handful of private interest is permitted to control as much as possible of social life.” (McChesney, 1998) While couched in the language of classical liberalism, neoliberalism should not be viewed as a simple extension of either classical or neoclassical economic theories. It’s much more draconic. Classical liberal theorists stressed the need for competitive markets and posited a minimum role for government, but they recognized that markets were amoral and some government oversight was needed. Neoliberals extol one aspect of Adam Smith’s theory, i.e., free market competition, but, as George (1999) notes, they omit the moral aspects of Smith’s treatise.\(^1\) Hayek and his neoliberal followers limit the functions of the state “to preventing violence and deceit, protecting property, assuring observance of contracts and recognizing equal rights for all individuals to produce and sell in any quantity.” (Michalitsch, 2004)

Neoliberalism fosters corporate hegemony since it treats the market as an omnipotent God that should direct the fate of human beings. Critical theorists of all persuasions, i.e., Gramsci, (1971) Dugger (1989), Polayni (1944), have long warned of the dangers of allowing the economic interests to dictate societal norms. Polayni (1944, p. 73) argued that "to allow the market mechanism to be sole director of the fate of human beings and their natural environment would result in the demolition of society."\(^2\) He erroneously predicted after World War II that the Keynesian revolution permanently had ended the domination of society by the economic elite.

**A Return to the Road to Serfdom**\(^3\)

While the neoliberal movement gained power throughout the period after the Vietnam War in the United States, Ronald Reagan’s election in 1980 provided neoliberalism with a charismatic and effective spokesman in the highest office in the United States. With the demise of communism, neoliberals waged an effective media campaign to promote “free market” competition and deregulation as essential to the nation’s well being.\(^4\) They had a simple message, competition works. They argued that competitive forces (1) allocate all societal resource efficiently and (2) result in a morally superior form of political economy. Therefore, they argued the government could limit its role to preserving order, protecting individual freedoms and enforcing contracts. While we do not accept neoliberals’ assumptions with respect to allocative efficiency, the claim that the “market is a morally superior form of political economy” (Peters, 2005) had a more invidious effect on corporate behavior in the United

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\(^1\)See George (1999) for an excellent overview of the effectiveness of the neoliberal strategy in the US and the UK.

\(^2\)In a very interesting book, Pollin (2003) outlines three fallacies associated with the neoliberalism, the Marxian (wage), Keynesian (speculation) and the Polayni (social) problems. He argues that neoliberalism exacerbates inequalities of individuals and nations.

\(^3\)See Hayek (1944, 1960) to trace the antecedents of neoliberalism; see Friedman (1981) for an overview of the Chicago economics school.

\(^4\)George (1999) points out a similar phenomenon occurred in the UK, she argues that “the central value of Thatcher's doctrine and of neo-liberalism itself is the notion of competition--competition between nations, regions, firms and of course between individuals.”
States in the 1990s. We view neoliberalism as an instrumental discourse that mystifies, justifies, naturalizes and universalizes inequality and elite economic status. We concur with Giroux’s (2005) scathing indictment of neoliberalism as a “virulent and brutal form of market capitalism.” It is the 20th century variant of Social Darwinism—Economic Darwinism.

Neoliberalism can be viewed as a return to a primitive form of individualism. It is reflective of the power of elites that the Social Darwinist’s message, popular at the end of the 19th century, has been repackaged as neoliberalism (Economic Darwinism) and sold as “natural” at the end of the 20th century. Herbert Spencer, considered the father of Social Darwinism, argued that as in the natural world, society reflects a struggle for existence and that the fittest survive. The winners (i.e., the fittest) achieve power, status and wealth; those who fail, the unfit or the underclass, are powerless, an underclass, and poor.

Social Darwinists viewed Nature as exercising an “invisible hand” that ensured societal well being; Economic Darwinists imbue the Market with the “invisible hand” that promotes both economic and social well being simultaneously. The theory absolves government from responsibility for ensuring equity among the populace; in fact, to do so, would harm society. Competition will ensure that the fittest survive and prosper, which, neoliberals argued, ensures justice. Neoliberal strategists disseminated this message far and wide and they succeeded in creating a hegemonic environment that rendered inequalities invisible and social welfare questions moot. Neoliberal strategists in creating an environment that enabled the economic elite to wield enormous power, in an almost invisible fashion. They successfully created a hegemonic environment that invited unethical behavior among corporate and professional elites.

**Outline of Our Study**

The objective of this study is to link neoliberal ideology with practices that created an environment that promoted unethical behavior among three financial reporting elites: corporate executives, accountants and financial analysts. We begin by examining the concept of corporate

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5 See Beu, D. S. and Buckley, M. R. for discussion of how the politically astute achieve crimes of obedience through moral disengagement.

6 Giroux (2005) depicts neoliberalism as wedded to the belief that the “market should be the organizing principle for all political, social, and economic decisions, neoliberalism wages an incessant attack on democracy, public goods, and non-commodified values.” Everything is for sale; public lands are privatized, airwaves are handed to corporate interests, the environment is polluted, all in the name of profit.

7 Social Darwinism became far more popular in the United States than in the UK where Spencer lived; Andrew Carnegie carried the message forward in his “Gospel of Wealth,” which was published in book form in 1962 and William Graham Sumner was its most eloquent academic proponent; see Leuchtenberg (1963) for a compilation of Sumner’s works.

8 See Goldstein (2002), who quotes Alan Greenspan (1963), who argued the free market system is a “superlatively moral system that the welfare statists propose to improve upon by means of preemptive law, snooping bureaucrats and the chronic goad of fear.”
hegemony, as defined by Gramsci (1971), Dugger (1989) and other critical researchers, to provide an understanding of the conditioning environment in the United States in the 1990s. We then discuss three types of power—coercion, agenda setting and “manufactured” consent—that were used in that decade to promote the neoliberal agenda. We discuss coercive power, briefly, but we focus on agenda setting power to highlight how several deregulatory policies impacted financial reporting and the behavior of those involved in the reporting process. We look at four companies in four different industries that have been charged by the SEC with reporting violations; our objective is to show that despite the neoliberal rhetoric, self-interested individuals (corporate managers) benefited unduly from those financial reporting manipulation, and the governance system, not a few individuals, failed.

We then go to a third consent of power, “manufactured consent” which Gramsci (1971) considered the most effective form of power, used to both promote the neoliberal ideology and to defuse the impact of the subsequent corporate scandals. Our focus is to show the power of ideology even in the face of contradictory events. We examine the rhetorical strategies that the neoliberals used to defuse public concern; then we briefly examine the only real reform enacted in direct response to the scandals, Sarbanes-Oxley, and assess its impact. We conclude with a discussion of why the blatant injustices, wreaked by neoliberal policies in the 1990s, have not evoked cries for reforms from the public or from accounting academics in the United States. Our hope would be that modernist researchers might be swayed by “facts” of the inequities perpetrated in the 1990s, but our inclination is that “facts” do not make a significant difference to those in a hegemonic society.

**Corporate Hegemony**

We define hegemony as a state of being where all sectors of society appear to be in harmony with those in power and control. It involves a way of seeing things, and convincing people that this particular way of seeing is “natural” and right. Corporate hegemony results when economic interests become the dominant interests in a society and all other independent institutions become means by which to promote economic interests (Dugger, 1989).

The Italian Marxist philosopher, Antonio Gramsci (1971), described hegemony as the organization of different social forces under the political, intellectual and moral leadership of a particular social force and its intellectuals. He used the term hegemony to reflect “manufactured consent” which resulted from control of cultural outlets and led to voluntary subjugation of the non elite classes. Gramsci understood the importance of ideas in enabling power. Ironically, neoliberals seem to be the only group in the United State that heeded Gramsci’s message that ideas matter. They have built an efficient ideological cadre; Susan George (1999) succinctly outlined the strategy that neoliberals have used as follows:

> If you can occupy peoples' heads, their hearts and their hands will follow…

> the ideological and promotional work of the right has been absolutely brilliant.

> They have spent hundreds of millions of dollars, but the result has been worth...

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^9Gramsci (1971, 1985) examined 19th century hegemonic cultural forms, such as newspapers, novels, and theater; he noted to be effective these cultural forms required both widespread literacy and technological advance. He suggested these bourgeois cultural forms, functioned to exert control over the working classes by making their interest appear to be tied into the interests of the dominant classes.
every penny to them because they have made neo-liberalism seem as if it were the natural and normal condition of humankind. No matter how many disasters of all kinds the neo-liberal system has visibly created, no matter what financial crises it may engender, no matter how many losers and outcasts it may create, it is still made to seem inevitable, like an act of God, the only possible economic and social order available to us.\textsuperscript{10}

Neoliberals have sponsored a cadre of Gramsci’s “organic intellectuals” who have promoted an ideology that paved the way for the economic elites to exercise power, almost invisibly. Subjugation has been voluntary. Most critical theorists depict voluntary subjugation (manufactured consent) as the most effective means of control.\textsuperscript{11} Corporate hegemony facilitates the exercise of power by economic elites; we examine three types of power: coercion, agenda setting and manufactured consent (voluntary subjugation), below, that have negatively impacted both financial reporting and auditing.

**Concepts of Power**

The concept of power has been difficult to operationalize but there has been a general consensuses that there are three types of power—coercion, agenda setting, and manufactured consent—with the latter form being the most effective form of power. The corporate elite exercised all three types of power in the United States in the 1990s, creating an amoral (if not immoral) environment that facilitated financial reporting abuses and resulted in a spate of scandals.

**Coercive Power**

Dahl (1957) defined coercive power as “the ability of one person to coerce another into doing something they would not otherwise do.” Coercion is the most blatant form of power but, generally, exercise of coercive power is transparent and can invoke public criticism. Corporations exercise coercive power whenever they legitimately threaten to move when a locality demands some form of social benefits, such as higher wages. The public visibility renders this form of power less appealing than agenda setting or manufactured consent. However, coercive power can be very effective when used to coerce “experts” whose work is not widely understood by the public. Corporate managers apparently used coercion to gain accountants’ acquiescence to management of earnings throughout the 1990s without a public outcry. However, the ability to coerce accountants was greatly facilitated by the corporate sector’s ability to set the political agenda and to foster passage of legislation that reduced the risk of professional gatekeepers, like accountants and financial analysts.\textsuperscript{12}

\textsuperscript{10}See Cornehls (2004, p. 47) who notes that the business roundtable composed of 140 corporate elite, control global corporations that have $3.5 trillion in revenues (about 1/3 U.S. GNP) and employ 10 million workers. They finance most political campaigns and have had a profound impact in selling the neoliberal message in the United States.

\textsuperscript{11}See OIE theorists, like Dugger (1989), who regard emulation as a central attribute of corporate hegemony, and Foucault (1980), who recognizes that a dominant discourse often leads to voluntary subjugation of the disciplined.

\textsuperscript{12}See Coffee (2003, p. 34) who concluded that "these gatekeepers' normal desire to preserve
Agenda Setting

Mills (1954) outlined how power elites exercise a more effective and less transparent form of power through agenda setting. Agenda setters determine which issues will be discussed and decided. More important, perhaps, they keep items off the agenda. Neoliberal strategists made agenda setting an art form in the 1990s. Political campaign contributions, lobbying and control of the media clearly affect the public policy agenda. Money clearly talked.

Blyth (2002) points out one reason that neoliberalism became the dominant ideology in the United State in the last quarter of the 20th century is because the “business class” united and used money to promote neoliberal policies. In the 2000 election cycle, businesses gave $1.2 billion to congressional campaigns, lining the pockets of Democrats and Republicans, alike. Corporate donations make up about 75% of the total contribution; candidates who raised the most money won. 94% of the time. The corporate donations paid off immediately with changes in the tax laws; corporations received $125 billion in tax breaks in 2000, a payout ratio of more than 100 to one. Accountants were not passive; they made large political contributions and lobbied Congress, successfully, to limit the profession’s legal liability under the securities acts. The profession also united and lobbied Congress to stave off the SEC’s threat to make the audit firms divest themselves of their consulting arms in the late 1990s.

The cynical might say that corporate generosity paved the way for massive deregulation and that the repeal of New Deal safeguards created a climate conducive to scandals. Two bills, the Private Securities Litigation Reform Act of 1995 (PSLRA) and the Gramm, Leach, Bailey Act and Financial Integration (GBLA) in 1999, changed relationships in the securities industry and seemed to erode concerns about fiduciary responsibilities.

The PSLRA made it less risky for one group of gatekeepers, auditors, to allow management greater latitude in selecting financial reporting methods. The accounting profession strongly lobbied for enactment of PSLRA, the law that limited accountants’ liability significantly. The law passed over their reputational capital in the long run became subordinated by their desire to obtain extraordinary returns in the short run.” He also points out that in a speculative era, the value of reputational capital decreases as investors reduce their reliance on gatekeepers.

13 See Corneils (2004) for estimates that business spends $1.5 billion annually to get its message to the public and discussion of the power of the Business Roundtable.

14 See The Color of Money at http://www.colorofmoney.org/ which documents sources of political contributions in the United States; over 92% of all contributions came from non Hispanic white zip codes. The voices heard are the voices of the affluent.

15 See Huffington’s (2003) delightful book which documents the use of money and media “to grease the way” for passage PSLRA, GLBA, and Congressional efforts to block SEC action.

16 See Dwyer and Roberts (2001) who examine the accounting profession's PAC and individual contributions in the 1997-1998 election cycle. The profession supported legislators who support
President Clinton’s veto, required Democratic defections. Accountants paid handsomely to be heard; they contributed $250,000 to Senator Christopher Dodd (Connecticut), a powerful Democratic committee chair, in a year when Dodd was not running for reelection. Senator Dodd voted to override the Presidential veto (Frontline, 2004).

The GBLA allowed another group of gatekeepers, financial analysts, to benefit from the investment banking activities of their firms; they had little incentive to issue earnings warnings to retail investors if they were about to benefit from an IPO. The financial industry made enormous political contributions to members of both parties of Congress in an effort to formally repeal the Glass Steagall Act that prohibited the strict separation between investment banking, insurance, and underwriting businesses. Citigroup led the successful lobbying effort, and in 1999 the Act was repealed with the passage of the Gramm, Leach Bailey Act.17 Deregulation allowed corporations to bend, if not, break the law. The public’s watchdogs, aided and abetted the fraud, their indifference to their fiduciary responsibility fueled by greed and "tort reform."

Despite it supposed liberal bias, the media rarely mentioned the influence that the corporate sector had on the political agenda; “investigative journalism” decreased significantly as corporate control of the media accelerated. The financial industry successfully lobbied to relax Glass Steagall in order to circumvent the prohibitions in the law as early as 1987. Those lobbying efforts went virtually unreported in the press or among academic accountants.18

**Deregulation and Stock Options**

Berle and Means (1932) recognized the fiduciary problem created by separation of ownership and control, warning that:19

> When the bulk of the profits of the enterprise are scheduled to go to owners who are individuals other than those in control, the interests of the latter are as likely as not to be at variance with those of ownership… the controlling groups (are) in a position to serve their own interests.

policies that privilege owners or capital and oppose policies that favor civil rights, labor, and women’s organizations. They interpret results as less consistent with a pluralist/functionalist perspective of the profession’s involvement and more consistent with a Marxist critical perspective.

17See Schlesinger (2002) for an excellent overview of effort of the financial services industry to repeal Glass Steagall beginning in 1987. GLBA, which allowed for full integration of underwriting, securities and insurance activities, went into effect on March 11, 2000.

18We discuss control of the media when we discuss “managed consent” later in the paper, but clearly media control facilitates agenda setting.

19See Bratton (2001) for discussion of why Berle and Means’s monograph has withstood the assault from the law and economics academics that began in the 1970s.
Agency theory (contracting) appeared to be a mechanism to reconcile the conflicts of interests, and Jensen and Meckling (1978) promoted stock options as the most effective vehicle to align managerial and investors’ interests. Changes in the tax law along with Congressional intervention to prevent the FASB from requiring options to be expensed in 1993, followed by the SEC’s reinterpretation of Section 16B of the Securities and Exchange Act of 1934 in the midst of a booming stock market, led to options becoming the vehicle of choice for compensation of the corporate elite.\footnote{In 1993, a tax law change limited corporations to a deduction of $1,000,000 compensation for each corporate executive. The FASB tried to make companies expense options as compensation in the same year, but Congress intervened so options were not expensed and did not count against the cap. The SEC had been under pressure from the corporate sector to reinterpret rule 16B of the 1934 Securities & Exchange Act; the agency acquiesced in 1999. Prior to the change, options had to be held for 6 months after the exercise date to get preferential tax treatment, but the reinterpretation changed the holding period from the exercise date to the grant date. This allowed managers to exercise and sell options the same day so exercise could be timed with release of “good news” earnings. (online at http://www.cfo.com/printable/article.cfm/3006150?f=options} These changes clearly created strong incentives for corporate executives to manage earnings and to focus on short term profits. Executive compensation rose dramatically throughout the 1990s, along with financial reporting problems as executives sought to maximize their wealth.\footnote{See Coffee (2003: 35) who shows the increasing importance of options; equity based compensation, 5% of CEO’s total compensation in 1990, rose to 60% in 1999 and the most equity compensation was in the form of options; see also Business Week for how deregulation has privileged the corporate elite; in 1980 the average CEO earned 41 X the wage of the average hourly worker, by 2000 the average CEO earned 531 X more than the average worker.} Financial analysts and auditors became increasingly dependent on corporate well being; auditors for consulting income and analysts for investment banking bonuses. Coffee (2003: 34) labeled these two groups gatekeepers, concluding that the “gatekeepers’ normal desire to preserve their reputational capital in the long run became subordinated by their desire to obtain extraordinary returns in the short run.”\footnote{Coffee (2003) also notes that in a speculative era, the value of reputational capital decreases as investors reduce their reliance on gatekeepers; a phenomenon that escaped attention in the mainstream accounting literature.} The evidence is clear that deregulation, combined with the stock market frenzy, resulted in both a lack of vigilance on the part of both accountants and analysts and the creation of incentives for corporate management to manipulate financial reports. The number of restatements of SEC filings rose from less than 50 a year to the highest levels in U. S. history in the last two years.\footnote{The Huron Company reports the following pattern for restatements in the last few years; 2004: 414; 2003: 323; 2002: 330; 2001: 270, 2000: 233. The percentage of companies reporting restatements of at least 3 years increased to 40%; multi year restatements indicate problems with controls, practices, etc., not one-time mistakes. Online at www. fulcruminquiry.com/article71.htm. We}
companies, in four different industries, to highlight the cost to investors, employees, and the public of the unbridled greed extolled by neoliberals, and the creative accounting techniques used to create illusions of prosperity.

Cases of Corporate Malfeasance

Xerox: The Rhetoric and the Impact

Xerox agreed to pay a $10 million civil penalty in 2002, settling their dispute with the SEC over charges related to the misstatement of their financial statements from 1997 - 2000. An enormous penalty compared to past penalties imposed by the SEC, three times larger than prior penalties. Additionally the SEC fined six top executives (former and current as of June 2002) $22 million. Xerox generously paid this fine (and they are negotiating a settlement with their insurance provider) since Xerox’s policy is to indemnify executives for disgorgements. The SEC enforcement staff said “[T]he message is that we are going to go after those involved in shaping the tone at the top, who are engaged in financial fraud” [Wall Street Journal, June 6, 2002]. Institutions did their duty and the system worked, or did it? This entity forfeited $32 million but whom did it cost? Those that were most accountable? No. Who gets shafted? We believe it was the non-executive level employees, outside shareholders (pensioners) who had the misfortune of buying the stock in the late 90’s and still holding it when the bottom dropped out in 2000, and those connected to Xerox’s supply chain.

An investor who purchased $100 of Xerox in December of 1997 would have $13.42 market value remaining as of December 2000. For Xerox’s peer group the $100 investment would have increased to $188.94 (see Table 1, Panel A, bottom 2nd page). The average market total equity value declined over $21.8 billion from 1997 through 2000. Now $32 million of fines is a lot, ironically paid by shareholders who may have taken some enormous losses, but it is a drop in the bucket compared to losses to society (e.g. pension plans).

-Insert Table 1-

The top four executives, during that same time frame exercised stock options valued at $47.4 million (see Table 2, Panel A). They received compensation beyond stock options of over $96 million. The SEC enforcement actions will help shape the future tone at the top? They intend to go after executives, even though most are indemnified. Now how do we get to this point? Accounting had a significant role in this. Management used accounting to create a false illusion of growth. Lets review some of the technical detail.

-Insert Table 2-

Most of Xerox’s financial reporting shenanigans dealt with Lease Accounting. Managers’ shifted future lease revenue into current sales revenue (Sales-type leases) by over valuing the equipment sales value at the expense of future maintenance obligations and the related revenue generated by this service; they included 100% of the renegotiated customer contractual price increases in leases all in the current period (not allocating to future periods when earned); and they minimized the estimate of future residual values of leased equipment; Xerox was able to overstate revenue and net income by $3.6 billion and $1.5 billion, respectively (see Table 1, Panel A, 1st page) for 1997-2000. Why did Xerox do this and how were they able to justify this over the years? The misreported net income was, on average, overstated by 25% each year and this allowed them to meet or exceed analysts projected EPS address the impact of Sarbanes Oxley later in the paper.
for each of those years (see charts in Table 1, Panel A). Yes, parts of the incentive for this aberrant behavior are compensation schemes and pressure to meet analyst’s forecasts. Part of it may be investor expectations that growth will be consistent and constant over time. This may come about due to allusions created by management and Wall Street. Top management set budget goals and earnings targets, for these years. They used accounting language to create successes and to cast blame. In 1999 the CFO stated that “the competitive environment” is increasing, nevertheless they remained focused on their “strategy, which is focused on . . . its services business” [WSJ, 7/23/99]; that is, the creation of sales-type leases used to increase revenues and profits. The CEO sets up negative expectations (which they manipulate to out perform) in that slumping earnings are due to “snafus of debt collection”, “increasing competition”, “reorganization” of their sales staff, weaknesses in overseas operations. [WSJ, 10/19/99] They deflected attention from top management to lower levels. For their Mexican unit they stated that “an independent investigation . . . found that 13 managers . . ., anxious to ‘drive growth at any cost’, colluded to . . . inflate revenue.” However the company “acted in a ‘timely and proper’ fashion by firing the managers . . .[WSJ, 2/2/2001] They defended all their accounting policies as ‘appropriate’ after an SEC probe is started [WSJ, 4/30/2001]. In June 2001 Xerox admitted that they may have “misapplied” accounting rules in many different ways, nevertheless the “accounting adjustments were relatively small . . . “That cheered Wall Street. [WSJ, 6/1/01] The company characterized former employees who become whistle blowers as “disgruntled” and these employees make assertions based on “hearsay and speculation”. [WSJ, 4/2/02] Management was able to extend their deception by blaming any shortfalls on “competition”, “reorganizations” and “disgruntled employees”. There may have been fraudulent behavior, but no executives are being accused of this. In some ways it relates to the aggressive judgments used in applying standards. What prevents this? Individuals, no doubt, but more importantly the institutions we expect to regulate this behavior. The SEC gave a slap on the wrist to management (really a wet kiss), the auditors are receiving some heat from the SEC and they may eventually be sued, nevertheless it took much too long for their “sniffers” to work (i.e., the audit smell test). Would S-OX have prevented this? We believe not. The CEO and CFO sign off on the financial statements may give pause, but they would defend themselves in the event of this type of downfall by saying they used their “judgment”, relied on underlings (who will be required to sign a similar statement about the accuracy of financial statements) and “market conditions”. Internal control review? No reason to think this would do any good either.

**Bristol-Myers Squibb: The Rhetoric and the Impact**

Bristol-Myers Squibb (BMS) issued the following partial press release in relation to its settlement with the SEC for misstatement of financial statements for the years 2000 and 2001:

BMS agreed, without admitting or denying any liability, not to violate in the future provisions of the Federal securities laws, as set forth in the agreed judgment...also agrees to establish a $150 million fund for a class of shareholders...

BMS has cooperated fully with the SEC and is pleased to have resolved this matter. The company has implemented a series of internal controls and procedures designed to ensure that its financial reporting processes meet the highest standards of integrity and professionalism...
Another potential large settlement, paid for by those who created the environment that lead to the settlement? Most unlikely since it will be paid for by the corporation and hence really be paid for by millions of shareholders who had no influence, but may have been “fooled” by the accounting. In 2000, BMS was a hot stock. Investors who invested $100 in BMS in 1997 would have had a 63% increase in value by the end of 2000, but would have only $57 remaining as of 12/31/02 when the potential for restatements was beginning to be realized (see Table 1, Panel B). Actual restatements did not take place until March of 2003. Investors and society may have lost many billions of dollars. In light of this, $150 million seems paltry.

At the time of the financial statement misrepresentations (2000 and 2001) the top five executives exercised options valued at $75,000,000 and received other compensation of $38,500,000 (see Table 2). What were these executives doing to earn this level of compensation? They were meeting and exceeding budgetary and earnings targets, that were extremely optimistic and aggressive. The market, however, approved of this picture and pushed up the value of the stock (allowing for the stock options to be very favorable). How were these expectations meant? Accounting gimmickry was used. Management allowed for an environment where inventory channel stuffing took place (forcing wholesalers to purchase large amounts of drugs which in the future could be returned for sales allowances or future discount kickbacks) and made use of “cookie jar” accounting. We will next examine the conditioning environment that led to this behavior.

De ja vu. Back in 1992 BMS was reprimanded for inventory channel stuffing and giving misleading earnings projections. At this time the company said it corrected these problems by taking a more conservative view in the future projections and instituted internal accounting control changes which would prevent this type of behavior in the future. The company, shortly thereafter (1994/5) committed itself to a goal of doubling revenues and net earnings. In 2000 company management declared they had met these goals and committed themselves to a new “MegaDouble” goal of doubling revenues and earnings within a five-year period. The race was on. The accounting records created an appearance of success in meeting these goals during 2000 and 2001. Due to inventory channel stuffing they overstated revenues, during that time frame, by $1.8 billion and net earnings by $1.388 billion (see Table 1, Panel B). This accounting manipulation was not sufficient for BMS’s management; therefore they created inappropriate reserves for discontinued operations and adjusted the reserve in these years, allowing for an increase of $223 million in net earnings. BMS announced in early 2001 that the accounting targets of the MegaDouble goal were being meant and record quarterly results were accomplished. In 2002, management realized that the inventory stuffing (like a pyramid scheme) could not indefinitely grow and that a turn around in operating results would be forthcoming. Ironically, they blamed this on “buying patterns” of their customers (2001 10-K SEC report filing). The company’s CEO was assuming “direct responsibility” for this problem and fired the current president of the medicine business and took over his duties (New York Times, 4/4/02). During this time period BMS stated that the problem was that of a few poor managers and the accounting treatment they applied to inventory was most appropriate (Wall Street Journal, 7/12/02). BMS realized the need for financial statements to be restated by the end of 2002. The Wall Street Journal (12/12/02) reported:

Bristol-Myers had long had sophisticated systems for tracking inventory, developed after an earlier overstocking flap 10 years ago. Fred Schiff, its longtime controller and later its chief financial offices, said 2½ years ago that Bristol-Myers was unique in the
drug industry in how closely it monitored inventory. Yet…in April 2002…Mr. Dolan…stated that he had only recently gotten the company to build mechanisms to track prescription demand.

Some former executives speculate that pay incentives such as stock options contributed to the mess the company got into. Mr. Skule says that ‘it’s outrageous to insinuate that Charlie Heimbold or Peter Dolan did earnings management to get paid. It’s simply untrue.’ The spokesman adds that ‘companies make mistakes. These are honorable people who have integrity. Peter Dolan inherited some things that he had to fix and he’s fixing them.’ Although ‘it ain’t going to be easy and it’s not going to happen this month,’ he says, ‘I know this guy can rebuild this company, brick by brick.

To further defend the management’s integrity, the company hired a former federal prosecutor to perform an internal review of sales practices. The curious thing is that few prosecutors have the accounting knowledge to understand the complexities of earnings management. The company concluded in a press release (3/10/03) that overstatements were due to lower management misperceptions that senior management were totally fixated on the MegaDouble goal; this misperception led lower management to authorize inappropriate sales incentives. To prevent this the company has instituted a process (internal accounting control) to better manage wholesaler inventories. It seems they said this ten years ago. The mistakes here are being blamed on the mistaken judgments related to assessing the demand in the marketplace. The market exacted its toll, not on management or the auditors or the SEC, but on a society that lost millions in pension values and paid an excess amount for their medicines. Would S-OX prevent the above? We doubt it.

Homestore, Inc.: The Rhetoric and the Impact

Homestore, Inc., unlike Xerox and BMS, is a company that many may not have heard of and is a significantly smaller entity. It is one of the Internet based companies that had an Initial Public Offering in August of 1999. The original company name was Homestore.com, Inc., but after the Internet bubble crash the company renamed itself to Homestore, Inc. The company is an Internet based real estate firm with real estate specific software products and services and an advertising outlet. The SEC filed a complaint with the company in 2002, which required the company to restate their financial statements for the year 2000 and for the first three quarters of 2001. No monetary fines were imposed, however the CEO and general counsel did resign in 2002. The SEC came through, it appears that executive accountability was enforced, or did they? Small time investors and small pension plans accounted for most of the investment dollars to the Internet start up companies. Investors who invested $100 at the IPO date had their investment grow rapidly to $350 in early 2000, based on the false expectations generated by the company’s press releases on revenue growth, being pushed by financial analysts. Then it began to crash; by the time all the accounting manipulations were known, the stock dropped to less than $1 per share. Investors who invested in the “stock price growth” period and held their stock would be subject to millions of dollars of losses (see Table 1, panel C).

How about the poor executives? As Table 2, panel C shows actual compensation was not lacking. During the restatement years (2000 and 2001) the top executives took home $4.5 million of non-stock compensation and exercised stock options valued at over $6.0 million. Yes, the CEO and
general counsel may now be gone but at least they should not have to worry about having a roof over
their head or where their next meal is coming from. What was the means that led to this picture of
growth followed by a realization of losses as far as the eye can see? Accounting was the means, with
the goal being to satisfy the expectations of the market place.

Table 1, Panel C, top table shows that Homestore overstated earnings and revenues by
approximately $160 million dollars. This allowed them to report a smaller than expected loss. Revenue
growth expectation and not earnings were measuring market performance expectations. This was
accomplished by primarily using two accounting manipulations. Homestore devised complex round trip
transactions where they generated revenue from closely linked vendors. They purchased services from
one vendor (say $1 million) and this required the vendor to buy online advertising blocks from a media
company (say $950 thousand), which was required to buy these advertising slots from Homestore (say
$900 thousand). These transactions created a large amount of operating revenue for what was
essentially a barter exchange. The company explained this in their restatement as the following:
Certain transactions were recorded as independent cash transactions when they were
actually reciprocal exchanges that should have been evaluated as barter transactions.
The Company determined that there was insufficient support to establish the fair value of
these barter exchanges and hence the related revenue had been reversed.

This is being presented as an inability to derive “fair values”, not accounting manipulation. The second
area of misstatement was basic revenue recognition. The company prematurely recognized software
revenue when it had material commitments related to the contract to perform in the future. The auditor
was either unaware of or let these transactions through in 2000 but did help bring it to light with the SEC
in 2001. Still, why did it take over 18 months to realize these problems? This was pre-S-OX, so it is
possible in the post S-OX environment the executives may have thought twice about manipulating the
financial reports. We cannot predict whether the current environment would have prevented executives
from greed, financial analysts from creating optimistic market expectations, and auditors from using their
“sniffers” (the smell test). Are the institutions more capable today than they were a few years back?
We believe there is many more Homestores today whose stories will be told in the future.

Dynegy: The Rhetoric and the Impact

Dynegy is a fascinating story in the deregulatory environment. It stood in Enron’s shadow until
its failed attempt at a takeover during Enron’s problem days. In many ways the Dynegy story is similar
to Enron in that it dealt with SPEs, manipulative energy trading and pressures to maintain liquidity. What
makes Dynegy interesting is that the primary financial statement manipulation was a $300 million cash
flow misclassification. The remaining shenanigans took place “under the covers” where visibility is at
best murky and remains non-quantifiable to this very day. This was allowed through deregulation where
Dynegy was able to manipulate volume in the market place, creating an impact on demand, supply and
price relationships. The penalties on Dynegy and a few of its employees were immense. In 2002
Dynegy incurred a $3 million fine from the SEC and a $5 million fine from the Commodities Future
Trading Commission; in 2005 they settled a shareholder lawsuit for $468 million ($250 million cash,
$68 million stock and $150 million covered by insurance) [Bloomberg News, April 15, 2005]. Several
mid-to-lower and upper level managers were indicted and one was sentenced to a 2-4 year prison
term. These penalties appear significant, and it may be argued that a fair resolution has been arrived at. Still it is difficult to evaluate this. Society may have paid an enormous price, but we can only begin to observe the tip of this iceberg. Investors who invested $100 in Dynegy at the end of 1999 would have seen the value of their investment skyrocket during the days that Dynegy successfully manipulated the energy market (late 2000 to early 2001). However, by the time all the type of misrepresentations that Dynegy was involved with became public, the value of this investment fell to $6.87 (see Table 1, Panel D). The federal court in sentencing the director of tax planning estimated that shareholders lost over $500 million due only to the accounting SPE manipulation (Associated Press, 3/24/04).

Dynegy’s top five executives did not do poorly during these turbulent times. They pulled down $43 million of non-stock option compensation in 2001 and 2002 (see Table 2, panel D). Additionally, they exercised $36.6 million of stock options net value during 2002 when the bottom was falling out of the share price. Their burden in this did not appear to be too great. We will now look at some of the details that surrounded these manipulations by Dynegy.

First let’s examine the accounting manipulation in their use of a Special Purpose Entity (SPE) and the financial statement misstatement. Financial Reporters and some energy analysts criticized Dynegy for the differential in their operating cash flow and their net income. There was concern that Dynegy would begin having a liquidity problem. To solve this “perception” Dynegy created an SPE called Project Alpha. Project Alpha allowed Dynegy to report $300 million operating cash flow in 2001 and provided a tax savings of $79 million. Throughout 2001 Dynegy did not disclose Project Alpha and it did not become public until April 2002 (Wall Street Journal, 4/3/02). At this time the CFO stated:

Part of the business purpose was to achieve that tax savings, but we did get a substantial source of physical gas supply. The bottom line is we feel this was something that was very strategic for the company and for compelling reasons. [The cash flow] was more of a by-product than an actual driver. [Wall Street Journal, 4/3/02]

Less than a month later (4/24/02) Dynegy reported in its Form 8-K that the primary purpose of the SPE was to reduce the operating cash flow differential with Net Income. However, after a review with the SEC it was determined that the cash flows could not be classified as operating and should be considered loans. Less than a week later, the shareholder lawsuit was filed. By October of 2002 Dynegy’s stock was trading for less than $1 per share from a yearly high of $47. This decline appears to be primarily due to Project Alpha.

The other two manipulations did not directly involve the financial accounting system. The intent of these manipulations was to drive up energy prices through the wholesale trading of energy contracts between interested parties. This was allowed due to the energy deregulation in the late 1990s. Two companies (Dynegy and CMS Energy) bought and sold to each other the rights to electric megawatt hour sales. In the fourth quarter of 2001 Dynegy traded $13 billion value in these energy contracts, $1.7 billion of this was due to the round trip trade. This continued into 2002, where in the first quarter Dynegy traded 89.7 million megawatt hours of electricity of which 5 million were from the round trip trades [Press releases 1/23/02 and 4/30/02 and SEC Litigation Release No. 17744 (9/25/02)]. The former CEO (who stepped down in May of 2002) said about these round trip trades that they gave
Dynegy a “black-eye,” yet the company did nothing wrong and they were “testing the system” to see if it worked. That is there was suppose to be a monitoring system for “non-economical” large trades. Still, these trades would create a perceived demand for energy in a tight supply market and would drive up the market price. This was during the California energy crisis.

Directly related to the round trip trades was the reporting of prices used to settle power energy contracts. In October of 2002 Dynegy fired 6 energy traders because they supplied “false data” to publishers of gasoline price indices, which were used to price energy contracts. Dynegy said they dismissed these traders due to an internal probe. The internal control system is working? However, a month before the internal probe the Commodity Futures Trading Commission began investigating Dynegy’s marketing and trading operations. Dynegy settled with the CFTC by paying a $5 million fine in its attempt to manipulate natural gas price indexes. This case has been directly tied to California’s claim that energy prices were severely manipulated during the California energy crisis and the state should be reimbursed billions of dollars. What is troubling about the above behavior is it would be rare to discover this in a detail review of the firm’s annual 10-K report. Do the new regulations required under the S-OX legislation prevent this behavior or give visibility to it? No. Where has de-regulation left us in this case?

**Manufactured Consent–The Power of Ideas**

The third form of power, manufactured consent is the most effective means of exercising power. Gramsci (1971: 56-9) noted that establishment of both intellectual and moral hegemony is a condition of voluntary conquest. More recently, Lukes (1994, p. 23) clarified that message, asking “is it not the supreme exercise of power to get another or others to have desires that you want them to have – that is to secure their compliance by controlling their thoughts and desires?” Voluntary subjugation will not generate resistance, since false consciousness renders the iron chains that grip the public mind invisible.  

An important ideological justification of deregulation is that it would deliver wealth and security, globally, if market forces were freed from regulatory intervention. The Washington Consensus (WC) presents the special interests of the economic elite as the general interest of the society. Citizens are creatures of the economy and politicians are “stewards of the economy” whose “overarching political mission is to insure that more and more goods and services are available to be consumed “ (Staats, 2004, p. 591). Neoliberalism frames markets as “natural” not self-constructed; markets “fire” people, markets crash and human efforts to control markets are doomed to failure (Dugger, 1989).

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24Lakoff (2003) for discusses framing, a rhetorical technique, neoliberals effectively used to gain manufactured consent. One of the most powerful examples of framing is to depict regressive tax policy as “tax relief.” Relief implies an affliction and a hero (the neoliberal) to remedy the affliction; thus, although neoliberal tax policies clearly privilege higher income groups, the public accepts this because “tax relief” is perceived as just. See Pollin (2003) for overview of how neoliberal tax policies benefit the wealthiest Americans.

25Court (2003) provides an overview of how corporations have shaped opinion, i.e., regulation increases consumer costs, regulation destroys business, and how these core ideas have been naturalized. He coins the term “corporateering” to describe this process.
The Role of Profit in Neoliberal Ideology

While neoliberals extol individual freedom, they understand the importance of “training” willing subjects. Aune (2001, pp. 40-1) examines how neoliberal rhetoric promotes “economic correctness” in order to produce trained subjects. He points out that neoliberals adopt a realist perspective; this allows them to separate power from its textuality and to “craft an aesthetically unified world of sheer power and constant calculation.”

Accounting (pecuniary) profit plays an important role in legitimating the neoliberal message. The “free” market metaphor is deeply engrained in Anglo American culture; an autonomous market, constrained only by competition (the invisible hand), ensures that self-interested profit seeking maximizes social well being. There is no ambiguity about accounting profit; it is the end, not a means to an end.

Capitalism Magazine, one of the many outlets for a conservative “think tank,” echoes this message loud and clear.

In an unfettered free market the desire for profit is satisfied by honest, long range, rational behavior: by innovating, by hiring the best people, by selling quality products and by providing accurate information to the owners of the corporation—shareholders. As for short-range managers the market will not tolerate them. (Brook and Epstein, 2002)

Profits at all (or perhaps any) cost became the mantra of the 1990s. (Stiglitz, 2002).

During the halcyon days of the 1990s, increasing accounting profits and/or revenues reinforced the neoliberal message that “everyone could be rich.” Arthur Levitt, the SEC’s chairman’s warnings about managed earnings in the late 1990s, drew limited attention from the popular press and threats from Congress to cease and desist. Whether through pension plans or direct investment, the neoliberal message was that the United States had become an “ownership” society in which all, except the clearly undeserving who could not compete, would prosper.

26The commodification of all aspects of life, subject to cost benefit calculation, finds an extreme application in the work of Gary Becker’s work. Becker defines marriage as a two-person firm for the production of children. People compete for partners to raise their individual benefit level; the quantity and quality of the children is also economically negotiable through their price. See Michalitsch (2004) and McCloskey (1985) for overviews of Becker’s work.

27Paton and Littleton’s (1939, p. 4) classic monograph reflects the same lack of ambiguity; the authors assert that accounting income (if measured correctly) would enable suppliers of capital to channel their investments to the most productive (and socially beneficial) use. The authors use terms such as “Matching” that create an aura of objectivity that masks the inherent subjectivity of accrual accounting, and of the historic cost allocation model they advocate.

28See Schlesinger (2002) and Frontline (2004) for discussion of Congressional and corporate threats to limit the SEC efforts; see Barr (1998) for the profession’s earlier reaction to Levitt’s proposals.
Despite neoliberal arguments that the market will not tolerate amoral behavior when greed is extolled as a virtue and accounting profit is reified, moral lapses can be expected to occur. Vidal (2005, p. 2) opines that when profit becomes the focal point “then everything else, from product quality to the workforce, becomes cost to be controlled and reduced. Profits over people, profits over environment; profits over community; (fake) profits, even, over shareholders.” He concludes that “only a fool would believe that a lecture in ethics would trump the incentives of profit over everything else.” (Vidal, 2005, p. 2)

Neoliberals could not ignore the corporate scandals; they acknowledged moral lapses occurred, but they successfully refocused the issues so that the public faith in the core concepts of neoliberalism was not shaken. They effectively used rhetorical techniques to divert attention from systematic governance failures to individual moral lapses and from deregulation to arcane technical accounting issues. Both strategies have served to quiet public outrage and limit regulatory reforms.

**The Neoliberal Responses to Corporate Scandals**

Conrad (2004) examined neoliberal rhetorical responses to the corporate scandals and found that the reaction occurred in two stages. The first stage involved symbolic placation of an outraged public. Once it became clear the scandal could not be denied, both politicians and the business leaders joined the public in expressing their outrage and held public hearings. During those public hearings, neoliberals began to develop rhetorical strategies to limit damage. One of the first moves was to label each scandal “a crisis.” The crisis label has a therapeutic effect, it calms emotions, but more importantly it delays the need for policy reforms.

The second rhetorical stage seeks to narrow the definition of victims and to narrow the problem from one of governance to a more tractable issue, such as accounting. The neoliberal response first sought to narrow “victims” to ownership interests, i.e., outside investors or employee investors, and to individualize moral lapses that occurred. (Conrad, 2004) The employee as employee disappears from the scene and attention is diverted from any systematic failure.

Once the moral lapses had been individualized, then the “few bad apples” explanation becomes predominant (Conrad, 2004, p. 316). It should be noted that the response in the academic community, the rediscovery of the need to “teach ethics” perpetuates the “bad apple” syndrome. If the crisis stems from individual bad behavior rather than from corrupt incentives or a corrupt system, then criminal sanctions or whistle blowing protection provide viable solutions.

Similarly, defining the problem of corporate misbehavior as an “accounting crisis” rather than a crisis of corporate governance also suits the neoliberal agenda very well. It too diverts attention from corporate governance and systematic failures and switches the debate to arcane auditing and accounting issues. Cornehl's (2004) documents the trend in the press to individualize blame for the current scandals, placing the blame on a handful of rogues, executives, board of directors, audit firms, financial analysts,

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29Neoliberalism reifies profit and accumulation; everything else from product quality to the quality of the workforce become costs to be controlled and reduced. It privileges profits over people and community. Vidal (2004) correctly asks why would anyone but a fool believe that a lecture in ethics would trump profit incentives?
etc. Historically, accounting issues have not generated public fervor as such issues appear to be “mere” technical problems to be solved by the experts.\(^\text{30}\)

**The Media Response**

Williams (2003) investigated media reports associated with the corporate scandals and found those accounts contained two basic discourses: the discourse of attribution and the discourse of recovery. Attribution discourses followed immediately upon public disclosure of scandals. They focused on a broad range of issues including (1) executive wrongdoing and the manipulation of financial accounts; (2) audit failures and conflicts-of-interest in the accounting profession; (3) ineffective corporate governance; (4) deceptive stock recommendations and conflicts-of-interest in the investment banking industry; (5) deregulation of energy, technology, and telecommunications markets; and (6) regulatory failure and political influence peddling. (Williams, 2003, p. 6)

The subsequent discourses, which Williams (2003) labeled discovery discourses, focused on “remedies” for the crisis and at this stage the deregulation issue and political influence peddling virtually disappeared from the media accounts. The remedies focused on criminal penalties for individual wrongdoers, reforms of accounting standards and oversight, elimination of conflicts of interests for individuals, i.e., separating auditing and consulting and divorcing analysts’ compensation from investment banking activities. Thus, neoliberals effectively used political and media control to reframe the corporate scandals as a matter of a “few bad apples” and conflict of interest problems for the “gatekeepers” of the public trust. Thus, it is not surprising that there is a consensus that the scandals only resulted in one real “reform” Sarbanes-Oxley. We briefly examine Sarbanes-Oxley to assess its effectiveness with respect to deterring future corporate scandals.

**Sarbanes-Oxley**

By late spring 2002, a series of very highly publicized corporate frauds had seriously eroded confidence in U.S financial markets and generated public outrage that politicians could no longer ignore. The first response involved symbolic placation, i.e., the economic elite joined the public in expressing outrage, and Congress held public hearings.\(^\text{31}\) During the hearings, the leaders of both political parties expressed outrage over the scandalous behavior of auditors, corporate executives, directors and other members of the financial community and vowed to take the necessary steps to restore investor confidence. Conrad (2004) pointed out that politicians buy time by initiating public hearings often with the intent to kill any real reforms. Thus, while the Senate passed legislation to “restore investor confidence,” it was not at all certain that the House would follow suit. We briefly examine the events of the period to show that until World Com erupted it was far from certain if any reforms would have been enacted.

Paul Sarbanes (D-Maryland) introduced legislation in the Senate, which was unanimously passed and sent to the House of Representatives. Most Washington observers, however, expected this

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\(^{30}\)See Previts and Merino (1998) for a discussion of the public’s reaction to “accounting” crises in the United States in the 20\(^{\text{th}}\) century. The stock option debate is a recent example of the difficult task that reformers have in getting investors energized.

\(^{31}\)See Conrad (2004) and our prior discussion of why symbolic placation typically is the first response to public outrage.
bill to die quietly in the House. Then in June, the WordCom scandal filled the headlines and enraged the American public. If Enron’s fall sparked the legislative initiative, then WorldCom became the proverbial straw that broke the camel’s back, i.e., the resistance to the reform legislation (Recine 2002). The Bush White House communicated to Michael Oxley (R-California), Chair of the House Financial Services Committee, that delaying the legislation was unacceptable. After a few minor changes to the Sarbanes legislation, Oxley put his name on the bill and sent it to the House floor (Whalen 2003). Ultimately, the result was passage of Sarbanes-Oxley (S-OX), arguably the most comprehensive securities and corporate governance legislation in the U.S. since the Securities Acts of 1933 and 1934.

Rather than focusing on the failure of deregulation, the pervasiveness of earnings management and the use of incentives that encourage management’s self-interested behavior, legislators focused on those individuals that comprise the corporate reporting supply chain: executive officers, directors, auditors, attorneys and securities analysts. The political leaders of both parties presented S-OX as a regulatory instrument capable of restoring the vibrancy of free markets. While we concede that S-OX has the potential to change the landscape of financial reporting and corporate governance, we fear that S-OX may actually lull the public into a false sense of security. Cunningham (2004) asserts that an audit and enhanced internal controls may be used to create “illusions of control and denial of risk,” which, in turn, may lessen social anxieties. Thus, the reforms give the appearance that the “system” is no longer broken, making it safe for the public to investment in capital markets. We proffer that S-OX has effectively widened the expectations gap between what the public expects of the accounting profession and the actual level of assurance that the profession provides.

Lauding the changes brought about by S-OX and stating that the next several years hold the potential to be a “golden age of reliable financial reporting,” a former CEO of Deloitte and Touche added this caveat, “No one should believe that all the bad guys in corporate America have been put in jail or that the cycle of greed and abuse has been permanently broken...we’ve seen this cycle of abuse play out roughly every ten years for many decades. I see no reason to believe that our society is fundamentally changing for the better,” (Copeland 2003). We concur with Copeland.

We specifically question if S-OX will prevent in the future the types of frauds presented in our four cases. A complete discussion of S-OX reforms and their relationship to the cases is beyond the scope of this paper. We will examine two of the more prominent reforms and discuss possible implications. Over the past several decades, corporate internal controls have become a “first-order policy option” to respond to a plethora of national problems. Before the 1960s, financial internal controls, though limited in scope, were used in corporate America. Non-financial internal controls for compliance issues were virtually nonexistent. Beginning with the electrical industry’s antitrust scandal of the early 1960s both types of controls began to proliferate. The early 1970’s saw overseas bribery scandals, resulting in passage of the Foreign Corrupt Practices Act (FCPA). The FCPA became the foundation for the development and implementation of a wide range of internal financial controls.

The emphasis on internal controls as a response to pending crises continued with passage of the Patriot Act to combat terrorism and S-OX to address corporate governance and financial reporting. Two of the most salient features of S-OX require (1) CEOs/CFOs to certify the design and function of financial reporting internal controls and (2) external auditors to test the controls and give an opinion as their design and effectiveness, including management’s certification (Cunningham 2004). Would the additional layers of emphasis on internal controls and their certification have prevented our case frauds?
While S-OX mandates both disclosure of the auditor’s assessment of internal controls and an internal control report, it provides no definition of what controls mean or require. In addition, S-OX fails to change the nature of controls – they leak, i.e., they have inherent limits. Part of this inherent weakness lies in the fact that for controls to be assessed they must be auditable. Although the S-OX internal control features will significantly increase billable hours for audit firms, adding layers of control and extensive assessments to the model does not change the inherent limits of controls.\(^{(32)}\) (Cunningham 2004) Detailed checklists of criteria used to analyze internal controls may be useful to auditors as compliance evidence, but no apparent correlation exists between the fairness of financial statements and the number of “boxes checked” by auditors. (Legal Requirements 2003) In each of our four cases, the problem was not a lack of internal controls, but managers’ authority to override them. As noted previously, only 8% of frauds are caught by internal controls. It is too early to tell if SOX will have a significant impact on this percentage.

Langevoort (2004) asserts that the design of a system of internal financial reporting controls must consider the situational incentives germane to the corporation, especially those incentives that impact self-interested behavior. Internal controls must include the audit of forward-looking information and risk disclosure just as historical accounting data is audited. Internal controls in the area of forward-looking information, such as trends and uncertainties, and risk disclosure would assist the public in determining if management’s discussion and analysis of company performance is reliable.

Langevoort (2004) also suggests that as internal pressures within a corporation increase (e.g., pressures to meet aggressive growth targets) qualitative and quantitative internal control audits, including an evaluation of the CEO’s own candor, should vary directly with the pressures. “An internal reporting controls system that does not have a thermostat built into it to adjust when performance becomes overheated is a deficient system.” (Langevoort 2004, p. 316) Failure to do so increases the risk of fraudulent behavior. While external audits that followed Langevoort’s suggestions may have provided the auditors and/or the public with the requisite tools to decipher the frauds in one or all of our cases, S-OX is silent with respect to the utilization of these recommendations.

Brook and Epstein (2002), staunch neoliberal advocates, argue that the “market will not tolerate short term managers” and that it will demand honest financial information. Those assertions are not self-evident, given the events of the 1990s through 2002. Stock options created incentives for managers to “manage” earnings, and they did so with some frequency.\(^{(33)}\) It is not clear whether Sarbanes-Oxley will deter future earnings management. The Huron Company (2005) reports that, contrary to expectations under S-OX, the number of restatements continues to increase annually, and the percentage of companies reporting multi year (3 years or more) restatements rose to 40% in 2004. There is no doubt that S-OX has strengthened the accounting profession’s power with respect to management to a degree, but it is not clear that accountants will not continue to identify with management, as the client, and be reluctant to develop adversarial relationships.

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\(^{(32)}\)The public, however, may perceive that additional layers and assessments eliminate the inherent weaknesses.

\(^{(33)}\)Berle and Means (1932) appear to have been correct in predicting that the controlling group (management) is in a position to serve its own interests.
Conclusion:

Sarbanes-Oxley provides a narrow response to the widespread corporate scandals of the 1990s. Neoliberals successfully diverted attention from the systematic failures of deregulated markets. Despite neoliberal assertions that the omnipotent “free market” would not permit managers to adopt a short-term perspective nor to issue “false financial reports,” financial reporting abuses proliferated throughout the 1990s. Our examination of four companies in four different industries shows the widespread nature of the reporting abuses and that a variety of incentives for abuse existed. Sarbanes-Oxley, while imposing some penalties, has not been successful, to date, in stemming the tide of restatements. Despite neoliberal rhetoric, corporate managers appear to have incentives to manage short-term earnings.

Neoliberals skillfully used rhetoric to frame issues to defuse criticism; they understand the importance of support from a cadre of Gramsci’s “organic intellectuals.” They have think tanks and have developed a media infrastructure to propagate the free market “faith.” They also have an impact on higher education, through endowed chairs and centers. The corporate scandals have shown that mere facts will serve to break the hold that neoliberalism has on the American mind; it will take a concerted effort by critics to reframe the issues in a manner that highlights the growing contradictions between neoliberal theory and extant economic relationships. As our cases show, corporate managers (the economic elite) exacted a premium from all other stakeholders by manipulating earnings. This not only allowed them to receive excessive compensation, but also resulted in the loss of jobs to thousands of workers and huge losses to investors.

Accounting academics could have an important role in reshaping public opinion. Berle and Means (1932) warnings about the effect of separation and control need to be reasserted. The message should be clear, contracting (agency theory), does not work. We need new models that accurately reflect the power asymmetries between managers, owners, and the public and new modes of accounting. We need to develop new concepts to measure the effectiveness of corporate operations, and to debunk the neoliberal notion that maximization of “pecuniary” profit will lead to maximization of social welfare. Neoliberals successfully narrowed the impact of the scandals by limiting the losses to “investors” (either owner or employee); the thousands of employees who lost their jobs have only been mentioned tangentially in the debate. Academic accountants need to strive to make those employees visible again.

Finally, the public continues to view accounting as a technical, objective discipline; it is up to accounting academics to bring the message to the public of the inherent subjectivity of accrual accounting and of the historic cost allocation model. Sarbanes-Oxley has opened the door for emphasizing the subjective nature of all accounting data with the principles/rules debate. We need to expand the concept of corporate performance measurement to reflect “full earnings” not just profit to the owners.
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TABLE 1
Earnings and Financial Statement Manipulation Impacts

Panel A: Xerox (SEC calls Xerox’s Manipulations: “One-Off” Accounting Actions)

Revenue and Net Income Misstatements from “One-Off” Accounting Actions 1997-2000
(in Millions)

<table>
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<th>1998</th>
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<td>238</td>
<td>226</td>
<td>28</td>
<td>653</td>
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</tbody>
</table>

Impact of "One-Off" Accounting Actions on Pre-Tax Earnings
For the Years 1997 - 1999

Panel A (continued)

Impact of "One-Off" Accounting Actions on Reported EPS and Comparison to First Call Consensus Estimates
For the Years 1997-1999


Earnings Manipulation Impact on all Shareholders
Assume a $100 Investment at December 31, 1997

<table>
<thead>
<tr>
<th>Company Name/ Index</th>
<th>Base period Dec 97</th>
<th>Dec 98</th>
<th>Dec 99</th>
<th>Dec 00</th>
<th>Dec 01</th>
<th>Dec 02</th>
</tr>
</thead>
<tbody>
<tr>
<td>XEROX CORP</td>
<td>$100</td>
<td>$162.01</td>
<td>$63.60</td>
<td>$13.42</td>
<td>$30.49</td>
<td>$23.55</td>
</tr>
<tr>
<td>S&amp;P 500 INDEX</td>
<td>100</td>
<td>128.58</td>
<td>155.63</td>
<td>141.16</td>
<td>124.65</td>
<td>97.10</td>
</tr>
<tr>
<td>PEER GROUP</td>
<td>100</td>
<td>180.26</td>
<td>272.05</td>
<td>188.95</td>
<td>149.24</td>
<td>100.85</td>
</tr>
</tbody>
</table>


This table assumes the investment of $100 on December 31, 1997 in Xerox Common Stock, the S&P 500 Index and the Peer Group Common Stock, and reinvestment of quarterly dividends at the monthly closing stock prices. The returns of each company have been weighted annually for their respective stock market capitalizations in computing the S&P 500 and Peer Group indices.

TABLE 1 (continued)
Earnings Manipulation Impacts

Panel B: Bristol – Myers Squibb Company (BMS)
Restatement – March 2003 Due to Channel Stuffing

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Net Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$521 Million</td>
<td>$389 million</td>
</tr>
<tr>
<td></td>
<td>(2.8%)</td>
<td>(6.9%)</td>
</tr>
<tr>
<td>2001</td>
<td>$1.284 billion</td>
<td>$999 million</td>
</tr>
<tr>
<td></td>
<td>(6.6%)</td>
<td>(31.1%)</td>
</tr>
</tbody>
</table>

**Inappropriate use of Reserves—“Cookie Jar” Reserves**
These were created during the period of 2000-2001 in the form of bogus divestiture reserves. These reserves were then selectively released so that EPS could be manipulated to exactly hit analyst’s predictions.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Reserve Inappropriately Created</th>
<th>Reserves Inappropriately Reversed into Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$104 million</td>
<td>$66 million</td>
</tr>
<tr>
<td>2001</td>
<td>$115 million</td>
<td>$157 million</td>
</tr>
</tbody>
</table>

**Earnings Manipulation Impact on all Shareholders**
_Assume a $100 Investment at December 31, 1997_
Assumes $100 invested on 12/31/97 in Bristol-Myers Squibb Common Stock, S&P 500 Index and Peer Companies Group Index. Values are as of December 31 of specified year assuming dividends are reinvested.

<table>
<thead>
<tr>
<th>Ending of Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol-Myers Squibb</td>
<td>100</td>
<td>142.95</td>
<td>138.93</td>
<td>162.82</td>
<td>120.13</td>
<td>57.39</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>100</td>
<td>128.58</td>
<td>155.63</td>
<td>141.46</td>
<td>124.65</td>
<td>97.10</td>
</tr>
<tr>
<td>Peer Group</td>
<td>100</td>
<td>138.31</td>
<td>116.44</td>
<td>155.72</td>
<td>134.79</td>
<td>112.31</td>
</tr>
</tbody>
</table>

TABLE 1 (continued)
Earnings Manipulation Impacts

**Panel C: Homestore Inc. (formally Homestore.com)**

Restatements due to “roundtrip” transactions and improper software revenue recognition:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Income (Loss) Before Adjustment</th>
<th>Income (Loss) after Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2000 to December 31, 2000</td>
<td>41.4 million</td>
<td>(115.2) million</td>
<td>(156.6) million</td>
</tr>
<tr>
<td>January 1 to September 30, 2001</td>
<td>119.0 million</td>
<td>(245.8) million</td>
<td>(364.8) million</td>
</tr>
</tbody>
</table>

*Source: Annual Report for year ended December 31, 2001 – SEC: Filed on 04-03-2002*

*Earnings Manipulation Impact on all Shareholders
Assume a $100 Investment at August 5, 1999*

*Source: Proxy notice for Annual Meeting of Stockholders, June 28, 2004*
TABLE 1 (continued)
Earnings Manipulation Impacts

Panel D: Dynegy

Impact of “Project Alpha” SPE to shift financing cash flows to operating for year ended 12/31/01:

$300,000,000

*Earnings Manipulation Impact on all Shareholders
Assume a $100 Investment at December 31, 1999*

Total Shareholder Returns (assumes dividend reinvestment)

<table>
<thead>
<tr>
<th>Company Name / Index</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynegy Inc.</td>
<td>$100</td>
<td>$320.21</td>
<td>$146.72</td>
<td>$6.87</td>
<td>$24.91</td>
<td>$26.89</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>$100</td>
<td>$90.90</td>
<td>$80.09</td>
<td>$62.39</td>
<td>$80.29</td>
<td>$89.03</td>
</tr>
<tr>
<td>2004 Peer Group</td>
<td>$100</td>
<td>$177.74</td>
<td>$109.73</td>
<td>$34.11</td>
<td>$45.21</td>
<td>$60.04</td>
</tr>
<tr>
<td>2003 Peer Group</td>
<td>$100</td>
<td>$164.64</td>
<td>$82.42</td>
<td>$12.97</td>
<td>$26.53</td>
<td>$38.09</td>
</tr>
</tbody>
</table>

*Source: Proxy Statement for the Shareholder’s meeting to be held on May 19, 2005.*
### Table 2

#### Executive Compensation

**Panel A:**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Salary</th>
<th>Annual Bonus</th>
<th>Long Term Incentive</th>
<th>All Other Compensation</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$2,591,507</td>
<td>$8,647,785</td>
<td>$1,665,811</td>
<td>$990,829</td>
<td>$13,895,932</td>
</tr>
<tr>
<td>R 1997</td>
<td>2,712,739</td>
<td>14,032,854</td>
<td>27,068,869</td>
<td>905,679</td>
<td>44,720,141</td>
</tr>
<tr>
<td>R 1998</td>
<td>3,128,166</td>
<td>11,561,575</td>
<td>6,171,427</td>
<td>5,519,917</td>
<td>26,381,085</td>
</tr>
<tr>
<td>R 1999</td>
<td>3,875,000</td>
<td>0</td>
<td>0</td>
<td>4,705,017</td>
<td>8,580,017</td>
</tr>
<tr>
<td>R 2000</td>
<td>3,918,588</td>
<td>806,626</td>
<td>6,971,250</td>
<td>4,795,209</td>
<td>16,491,673</td>
</tr>
<tr>
<td>2001</td>
<td>4,517,750</td>
<td>5,829,725</td>
<td>4,686,250</td>
<td>440,012</td>
<td>15,473,737</td>
</tr>
</tbody>
</table>

#### STOCK OPTIONS

CEO and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Shares Underlying Options Granted</th>
<th>Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term</th>
<th>Value Realized (Fair market value of the purchased shares on the option exercise date, less the exercise price paid for those shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>0</td>
<td></td>
<td>$3,825,919</td>
</tr>
<tr>
<td>R 1997</td>
<td>1,601,644</td>
<td>$575,476,336</td>
<td>8,221,099</td>
</tr>
<tr>
<td>R 1998</td>
<td>1,005,252</td>
<td>31,504,010</td>
<td>19,586,965</td>
</tr>
<tr>
<td>R 1999</td>
<td>427,852</td>
<td>8,856,517</td>
<td>19,807,135</td>
</tr>
<tr>
<td>R 2000</td>
<td>1,210,000</td>
<td>18,872,139</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>3,368,900</td>
<td>12,893,771</td>
<td>0</td>
</tr>
</tbody>
</table>

R = financial statements restated

Information in the above tables was compiled from data appearing in the company’s Definitive Proxy Statements filed with the SEC
TABLE 2 (Continued)

Executive Compensation

Panel B:
Bristol Myers Squibb

COMPARISON
(Excluding Option Grants)
to Chief Executive Officer
and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Salary</th>
<th>Annual Bonus</th>
<th>Long Term Incentive</th>
<th>All Other Compensation</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$3,701,200</td>
<td>$3,673,711</td>
<td>$23,729,475</td>
<td>$168,456</td>
<td>$31,272,842</td>
</tr>
<tr>
<td>1999</td>
<td>4,575,500</td>
<td>5,473,338</td>
<td>4,275,000</td>
<td>205,821</td>
<td>14,529,659</td>
</tr>
<tr>
<td>R 2000</td>
<td>4,979,957</td>
<td>3,324,855</td>
<td>10,944,625</td>
<td>224,098</td>
<td>19,473,535</td>
</tr>
<tr>
<td>R 2001</td>
<td>4,851,235</td>
<td>6,088,369</td>
<td>7,862,610</td>
<td>307,235</td>
<td>19,109,449</td>
</tr>
<tr>
<td>2002</td>
<td>3,316,785</td>
<td>507,500</td>
<td>2,445,000</td>
<td>1,127,666</td>
<td>7,396,951</td>
</tr>
<tr>
<td>2003</td>
<td>3,905,871</td>
<td>4,449,663</td>
<td>6,477,800</td>
<td>2,059,372</td>
<td>16,892,706</td>
</tr>
</tbody>
</table>

STOCK OPTIONS
CEO and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>OPTION GRANTS</th>
<th>OPTIONS EXERCISED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Shares Underlying Options Granted</td>
<td>Grant Date Estimated Present Value (Black-Scholes option pricing model)</td>
</tr>
<tr>
<td>1998</td>
<td>1,160,000</td>
<td>$10,675,477</td>
</tr>
<tr>
<td>1999</td>
<td>1,320,000</td>
<td>18,322,406</td>
</tr>
<tr>
<td>R 2000</td>
<td>1,533,000</td>
<td>30,009,349</td>
</tr>
<tr>
<td>R 2001</td>
<td>1,624,798</td>
<td>17,528,940</td>
</tr>
<tr>
<td>2002</td>
<td>995,000</td>
<td>12,749,068</td>
</tr>
<tr>
<td>2003</td>
<td>1,135,000</td>
<td>5,415,774</td>
</tr>
</tbody>
</table>

R = financial statements restated

Information in the above tables was compiled from data appearing in the company’s Definitive Proxy Statements filed with the SEC
### TABLE 2 (Continued)

**Executive Compensation**

**Panel C:**

Homestore.Com, Inc.

#### COMPENSATION
(Excluding Option Grants)
to Chief Executive Officer
and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Salary</th>
<th>Annual Bonus</th>
<th>Long Term Incentive</th>
<th>All Other Compensation</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$597,000</td>
<td>$221,500</td>
<td>----</td>
<td>----</td>
<td>$818,500</td>
</tr>
<tr>
<td>1999</td>
<td>792,096</td>
<td>748,000</td>
<td>----</td>
<td>----</td>
<td>1,540,096</td>
</tr>
<tr>
<td>R 2000</td>
<td>921,626</td>
<td>617,640</td>
<td>----</td>
<td>----</td>
<td>1,539,266</td>
</tr>
<tr>
<td>R 2001</td>
<td>1,183,829</td>
<td>200,000</td>
<td>----</td>
<td>$1,557,000</td>
<td>2,940,829</td>
</tr>
<tr>
<td>2002</td>
<td>2,108,968</td>
<td>3,720,201</td>
<td>----</td>
<td>701,581</td>
<td>6,530,750</td>
</tr>
</tbody>
</table>

#### STOCK OPTIONS
CEO and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>OPTION GRANTS</th>
<th>OPTIONS EXERCISED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Shares Underlying Options Granted</td>
<td>Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>1998</td>
<td>1,975,000</td>
<td>$1,540,917</td>
</tr>
<tr>
<td>1999</td>
<td>1,659,375</td>
<td>6,257,502</td>
</tr>
<tr>
<td>R 2000</td>
<td>700,000</td>
<td>11,693,509</td>
</tr>
<tr>
<td>R 2001</td>
<td>1,341,667</td>
<td>19,840,643</td>
</tr>
<tr>
<td>2002</td>
<td>12,592,000</td>
<td>14,180,741</td>
</tr>
</tbody>
</table>

R = financial statements restated

Information in the above tables was compiled from data appearing in the company’s Definitive Proxy Statements filed with the SEC
### TABLE 2  (Continued)
#### Executive Compensation

**Panel D:** Dynegy

**COMPENSATION**
(Excluding Option Grants)
and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Salary</th>
<th>Annual Bonus</th>
<th>Long Term Incentive</th>
<th>All Other Compensation</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$2,576,881</td>
<td>$7,675,000</td>
<td>----</td>
<td>$99,284</td>
<td>$10,351,165</td>
</tr>
<tr>
<td>R 2000</td>
<td>3,272,622</td>
<td>8,769,776</td>
<td>----</td>
<td>136,146</td>
<td>12,178,544</td>
</tr>
<tr>
<td>R 2001</td>
<td>3,410,772</td>
<td>12,300,000</td>
<td>----</td>
<td>1,924,288</td>
<td>17,635,060</td>
</tr>
<tr>
<td>2002</td>
<td>3,828,161</td>
<td>3,828,116</td>
<td>----</td>
<td>17,812,933</td>
<td>25,469,210</td>
</tr>
</tbody>
</table>

#### STOCK OPTIONS
CEO and four other most highly compensated executive officers

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>OPTION GRANTS</th>
<th>OPTIONS EXERCISED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Shares Underlying Options Granted</td>
<td>Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>1999</td>
<td>2,420,510</td>
<td>$51,869,384</td>
</tr>
<tr>
<td>R 2000</td>
<td>1,313,387</td>
<td>38,978,142</td>
</tr>
<tr>
<td>R 2001</td>
<td>1,939,764</td>
<td>31,851,126</td>
</tr>
<tr>
<td>2002</td>
<td>2,184,000</td>
<td>1,365,858</td>
</tr>
</tbody>
</table>

R = financial statements restated

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