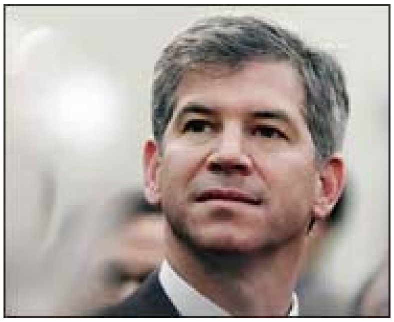

Former Enron Chief Financial Officer Andrew Fastow appears Feb. 7 before a House panel investigating the company's financial collapse. Fastow invoke his Fifth Amendment right against self-incrimination. (Larry Downing/Reuters)

Rampant Enron-omics?

Accounting Wizardry May Be Common Phenomenon

By Betsy Stark

ABCNEWS.com

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— Enron's Andrew Fastow is now reviled for the aggressive accounting he used as the energy firm's chief financial officer.

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But three years ago, his "unique financing techniques" were so admired that *CFO Magazine* named him one of the best CFOs of the year. Enron's then-CEO Jeff Skilling gushed: "Andy … deserves all the accolades tossed his way."

"If there's a hall of fame on creative CFOs and accounting for CFOs," says Howard Schilit of the Center for Financial Research and Analysis in Rockville, Md., "he should be inducted as the first applicant."

Drive to Survive?

Is pressure to please Wall Street behind such aggressive accounting? Companies that don't deliver the profits Wall Street expects get punished, often with a big sell-off of their stock.

The pressure to meet these expectations is so great that two-thirds of chief financial officers surveyed by *Business Week* magazine said they had been asked by the boss to misrepresent financial results. Twelve percent said they gave in to the request.

"If a company announces it's going to miss Wall Street's estimates by just a penny, you see the stock fall 30, 40, 50 percent immediately," says Schilit. "On one hand, they want to do what's right, but you know that there are accounting techniques that are legal to get that penny. If you report honestly, if you're a good guy, you're gonna get hurt. So unfortunately crime does pay."

Few companies go to the extremes Enron did to hide the truth. But Schilit, who makes a living dissecting corporate balance sheets, says *many* companies do use financial reports to mislead investors.

"Are they doing a disservice to their investors?" he asks. "Honestly, I think they are. The investor wants to know when things are great at the company and when they are struggling."

Enron may have gotten the world's attention because of the huge scale of its problems, but, adds Lynn Turner, former chief accountant at the Securities and Exchange Commission: "We shouldn't see Enron as just an isolated case. There are other companies out doing similar types of things; it's just that it doesn't rise to the scale that you see at Enron."

Familiar Names, New Scrutiny

In fact, some of the most admired companies in America are now under scrutiny. Here are a few examples:

- **Microsoft:** The SEC is looking into Microsoft's use of so-called cookie jar reserves. That's the practice of under-reporting profits in good years so profits can be padded in bad years.

- **Xerox:** Xerox is under investigation for allegedly selling multi-year leases on equipment but claiming all the revenue in the first year, what accountants call "early revenue recognition." Says Turner: "Quite frankly, it is the recipe of choice for cooking the books."

- **United, American Airlines:** United and American Airlines mask the extent of their debts by keeping the billions of dollars they owe on long-term airplane leases off their balance sheets.

- **Cisco:** And Cisco managed to turn a $1 billion loss last year into a $3 billion profit by reporting its earnings "pro forma." That's something hundreds of companies now do and what Turner likes to describe as "excluding all the bad stuff. … Pro forma numbers are nothing more than management trying to portray the company as something other than what it is. So it's automatically a red flag."

With a Wink and Nod

Now that a red flag on accounting has become the best reason to dump a company's stock, even company executives are calling for change.

"You shouldn't have to look in the footnotes on page 95 to figure out what's going on," says Tom Siebel, CEO of Seibel Systems, a San Mateo, Calif.-based software firm.

"The laws are clear. The principles are clear. Everybody knows what's right and wrong," he says. "The accountants and financial analysts have chosen to wink and look the other way."

The fallout? Now the new darlings on Wall Street are *not* the companies that play fast and loose with accounting rules to appear fast-growing. It's those companies that play it very conservatively.