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James H. Thompson
Washington State University, jht@cwu.edu

Timothy L. McCoy
Lamar University

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AN ANALYSIS OF RESTATEMENTS DUE TO ERRORS AND AUDITOR CHANGES BY FORTUNE 500 COMPANIES

James H. Thompson, Washington State University
Timothy L. McCoy, Lamar University

ABSTRACT

Events leading to the breakup of Arthur Anderson and Co. included the failure of Enron and other evidence of financial reporting irregularities. Many of these irregularities involved restatement of financial statements due to error. During the last several years, numerous articles in the accounting literature and accounting press have chronicled such restatements and the often-associated change in auditor. This paper analyzes restatements due to error and auditor changes made by Fortune 500 companies during 2001 and 2002 in order to assess whether restatements due to error lowered or raised income and whether companies with income-decreasing errors showed a greater propensity for changing auditors.

The data in this study were taken from 8-K reports filed by Fortune 500 Companies in 2001 and 2002 and from a search of the Securities and Exchange Commission's EDGAR database using the word "restate" and its derivatives. We searched for and analyzed restatements that were due to error. The income statement effects of these restatements were classified as income-decreasing or as non income-decreasing. We identified and confirmed two hypotheses related to restatements. First, restatements generally lowered rather than raised income. Second, companies reporting restatements that materially reduced income were more likely to change auditors than companies with non income-decreasing errors. More importantly, this study extended prior research by showing that the magnitude, not simply the direction, of a restatement was important in explaining when a change in auditor was likely to occur.

INTRODUCTION

Events leading to the breakup of Arthur Anderson and Co. included the failure of Enron and other evidence of financial reporting irregularities. Many of these irregularities involved restatement of financial statements due to error. During the last several years, numerous articles in the accounting literature and accounting press have chronicled such restatements. Accompanying these restatements, some companies have also changed auditors (GAO, 2002; Huron Consulting Group, 2003; Thompson and Larson, 2004; Wallace, 2005).

Some speculate that the need for restatement of financial statements creates friction between a client and its auditor (Wallace, 2005). In fact, some companies reportedly have decided to change their auditor because of disagreements related to restatements. Although companies are usually reluctant to change auditors because of the likelihood of increased audit fees during the transition period, such disagreements make a change in auditor a more plausible option. The number of auditor changes is usually very low. The breakup of Arthur Anderson has, however, exacerbated the number of auditor changes in 2002 (Plitch and Wei, 2004).

How often do auditor changes occur when restatements due to error take place? What is the effect of these restatements on financial statements? Does the effect of such restatements play a role in whether or not an auditor change occurs? This paper analyzes restatements due to error and auditor changes made by Fortune 500 companies during 2001 and 2002 in order to assess whether restatements due to error lowered or raised income and whether companies with income-decreasing errors were more likely to change auditors.

BACKGROUND

A large number of articles in the accounting literature have addressed auditor change issues, and more recently a number of articles have addressed the occurrence and impact of restatements on financial statements. However, the relationship between auditor changes and the impact of restatements on financial statements is largely unexplored.

Auditor Changes

Since companies must disclose when they change auditors, investors are able to keep abreast of the changes. The literature regarding auditor changes has focused on several issues ranging from frequency of change to reasons for change. Regarding frequency of change, Auditor-Trak, a database that follows corporate-auditor changes, reported that in 2003 each of the Big Four accounting firms lost more public-companies audit clients than it gained. PriceWaterhouseCoopers took the biggest hit, losing 91 audit clients. On the other hand, Grant Thornton, the world's fifth largest accounting firm picked up more than 1,000 new clients, including many defectors from the Big Four. The belief was that CFOs wanted more personalized attention from their audit partners, and firms like Grant Thornton gave midsize companies more attention at a better price than the Big Four, which specialize in service to large caps. In addition, Auditor-Trak publisher Richard Ossoff stated that the intense regulatory environment caused many companies to reevaluate their relationship with their auditors. For example, the Sarbanes-Oxley Act of 2002 prohibits companies from using the same firm for auditing and consulting services (Yoon, 2004). Moreover, some have suggested that mandatory rotation of registered public accounting firms should be implemented. In

fact, the European Council of Finance Ministers voted for mandatory auditor rotation (Bolton, 2005).

Even though companies and auditors parted at record rates in 2004 (Plitch and Wei, 2004), the exact reason was often unclear. In their Wall Street Journal article, Plitch and Wei reported that 75 percent of companies who changed auditors in a study by a research analyst at Glass Lewis & Co. gave no reason for the auditor's departure. Because a decision to change auditors is a sensitive decision, there are incentives for making the public disclosure as innocuous as possible. An auditor change has provided a signal to investors to dig deeper into matters leading to the change.

Hartwell et. al. (2001) studied the informational content of auditor changes. Some auditor changes signaled that potential problems exist, and others did not. For example, auditor changes designed to reduce audit fees, motivated by the need for additional services which the current auditor is unable to provide, motivated by changes in the audit firm personnel, and necessitated by a change in management do not indicate problems. On the other hand, an auditor change due to disagreement between the client and the auditor may indicate concerns regarding management's integrity, the presence of high inherent or control risk, or the clients desire to shop for an auditor who is willing to go along with questionable practices. The Hartwell study found that multiple-switch companies had a significant level of financial problems as more than 22 percent received going concern opinions. Their findings suggested that a careful examination of the Form 8-K disclosure for reasons given for the auditor change should be a part of every CPA firm's client acceptance policy.

Woo and Koh (2001) employed a research methodology that classified auditor changes based on audit and auditor characteristics and on firm characteristics. Their findings were consistent with those of prior studies and indicated that audit opinion, audit quality, management changes, income manipulation opportunities, leverage, complexity and firm growth were significant auditor-change factors.

Stafford Publications, in its data base Auditor-Trak, compiled reasons given by public companies for auditor changes. The publisher extracted the reasons from Form 8-K disclosures and then used more than 20 available coded reasons to describe the reasons for an auditor change (Stafford Publications, Ver. E-3). Hackenbrack and Hogan (2002) further classified the publisher's reasons into four categories: "service-related," "disagreement-related," "fee-related," and "uninformative." Their study was designed to assess the relative information content of earnings announcements reported before and after Form 8-K disclosures of the reason for an auditor change. They found that the average price response per unit of earnings surprise was lower following an auditor change for companies that switched for disagreement-related or fee-related reasons and higher for those that switched for service-related reasons.

Restatements

The occurrence and impact of restatements has received considerable attention in the financial press and in the accounting literature recently as a result of a shower of scandals and earnings restatements. The Huron Consulting Group (2003) and the General Accounting Office (2002) reported a significant increase in the number and trend of announcements of financial statement restatements in the late 1990's and through 2002. The GAO reported that the number of restatements increased by more than 170 percent over this period.

With the demise of Enron and the near-fall of other companies, such as HealthSouth and WorldCom, Thompson and Larson (2004) reported that public confidence in financial statements may be at an all-time low. Although loss of public confidence stemmed from financial reporting techniques that lacked transparency and involved numerous restatements of financial statements, they reported that many restatements did not indicate failure of the financial reporting system. In fact, many of the restatements should be viewed as normal rather than unexpected. For example, restatements that were due to mergers and acquisitions, changes in segments, and changes in accounting method reflected expanding business activity and were not negative in nature. Accounting errors, on the other hand, accounted for less than 8 percent of the restatements by Fortune 500 companies in 2001. The occurrence and magnitude of restatements in several high profile companies have created an image that the accounting process has failed more often than it really has.

The Role of Restatements in Auditor Changes

Like restatements, auditor changes were viewed negatively in the eyes of the public. Yet, some auditor changes did not reflect negative conditions.

Srinivasan (2004) suggested that restatements may play a role in auditor changes, particularly restatements that decrease earnings. In his study of data from the General Accounting Office that tracked companies that announced restatements between 1997 and 2000 restatements were classified into three categories: income-increasing, income-decreasing, and technical. Income-decreasing restatements are often viewed as negative or as evidence of aggressive accounting practices. Income-increasing restatements were not viewed in such a negative light despite the fact that these restatements are still accounting failures. Technical restatements do not imply improper accounting; such restatements result from routine actions, such as new accounting rules. Srinivasan focused his research on the first type of restatement, in which the company's profitability was better in the original earnings statement than what it turned out to be after the restatement. He found that these companies' restatements represented highly significant events. In fact, the average cumulative amount of net income restated was $39.5 million, a loss of nearly 10 percent of original earnings. He noted that restatements were followed by a number of reactions, including legal challenges and

corporate governance changes. In more than half of the companies, the CEOs resigned; in nearly half, the auditors changed. By comparison, income-increasing companies in his study experienced fewer lawsuits, less SEC enforcement action, less CEO turnover, and fewer auditor changes. Firms announcing technical restatement suffered no litigation or SEC action, lower rates of CEO turnover, and fewer auditor changes than either of the other two groups.

Wallace (2005) studied restatement announcements and auditor changes from 1996 to 2002. She found a rising number of restatements during those years for CompustatPC companies, but that growth rate was not reflected in the number of auditor changes. Her data indicated, however, that auditor changes were more likely to occur in conjunction with restatements. This result was driven by the fact that companies with multiple restatements during this period had a higher rate of auditor changes than companies with single restatements during this period.

The upward trend in auditor changes continued in 2003 and 2004. The number of SEC firms both changing auditors and restating their financial statements more than doubled from 14 in 2003 to 30 in 2004 (Turner et. al, 2005). Sixteen of these firms also reported internal control deficiencies in 2004. Auditor resignations in eleven of those cases may have resulted due to greater perceived client risk from the deficiency. In the remaining cases where auditors were dismissed, the uncovered weaknesses may have strained the auditor-client relationship.

METHODOLOGY

The data in this study were taken from 8-K reports filed by Fortune 500 Companies in 2001 and 2002 using the 2001 Fortune 500 list of companies. We searched the Securities and Exchange Commission's (SEC) EDGAR database using the word "restate" and its derivatives to identify restatements. The years 2001 and 2002 were selected for study because these years precede and follow the enactment of the Sarbanes-Oxley Act.

We analyzed each restatement to determine which restatements were due to error. The income statement effects of restatements due to error were determined and were classified as income-decreasing or as non income-decreasing. Except as noted, the income effects are before tax. For this purpose, an income-decreasing error is one that reduces income by at least 5 percent; a non income-decreasing error is one that is either income-increasing or whose income-decreasing effect is less than 5 percent (immaterial). In prior studies, income effects that are more than 10 percent are usually considered material; income effects of less than 5 percent are usually considered immaterial; the materiality of income effects between 5 and 10 percent are sometimes considered material, and other times are considered immaterial (Srinivasan, 2004 and Hackenbrack and Hogan, 2002). Consistent with those findings, income effects in this study of 5 percent or less are considered immaterial, and income effects of more than 5 percent are considered material.

Hypothesis I of this study was:

H1: A majority of restatements due to error have the effect of reducing rather than raising income.

This hypothesis was motivated by anecdotal evidence, such as reports by companies like Enron, Xerox, and WorldCom, that companies had significantly overstated their income. These reports seldom identified instances of income-increasing errors. The reasons for this pattern are obvious—companies with income-increasing errors were not apt to make the headlines; also companies that were involved in reporting irregularities were not motivated to understate income.

In addition, the authors reviewed each filing for evidence of a change in auditor. Such changes were reported by companies on form 8-K, disclosure item 4. For each company, the auditing firm dismissed and the auditing firm engaged were documented.

Hypothesis II of this study was:

H2: Companies with material income-decreasing errors are more likely to experience a change in auditor than companies with non income-decreasing errors.

Several reasons for this hypothesis existed. First, companies that report a significant reduction in income through restatement were often blistered in the financial press. In an effort to defend itself, the company attempted to transfer the blame to someone else—the auditor was the logical scapegoat. Second, any disagreement between a company and its auditor was likely to strain their relationship. When a restatement occurred, the company and its auditor often had different ideas about the nature and effect of the error and how it should be reported. Finally, the company at times questioned the effectiveness of the audit firm because it failed to identify the error before it occurred in audited financial statements.

RESULTS

Fortune 500 companies filed a total of 3,120 and 4,214 8-Ks with the SEC during 2001 and 2002, respectively. These 8-Ks reported 89 restatements in 2001 and 80 restatements in 2002. Table 1 shows that these restatements were due to (in decreasing frequency) merger/acquisition, change in segments, change in accounting method, discontinued operations/divestiture, error, change in presentation, and change in accounting estimate. Notably, restatements due to error accounted for only 7 and 13 of the total number of restatements for 2001 and 2002, respectively. Only one company, Xerox, reported restatements in both 2001 and 2002. The period affected by these restatements ranged from one to five years.

Table 1: Reasons for Restatements				
Reason	2001		2002	
	Frequency	Percentage	Frequency	Percentage
Merger/Acquisition	22	24.7%	10	12.5%
Change in Segments	21	23.6%	27	33.8%
Change in Accounting Method	18	20.2%	9	11.3%
Discontinued Operations/Divestiture	16	18.0%	9	11.3%
Error	7	7.9%	13	16.3%
Change in Presentation	3	3.4%	12	15.0%
Change in Accounting Estimate	2	2.2%	0	0.0%
Total	**89**	**100.0%**	**80**	**100.0%**

Table 2 presents information regarding the 19 Fortune 500 companies that reported restatements due to error. The impact of the restatements on income ranged from a 146.1 percentage decrease to a 0.3 percentage increase. As hypothesized, most of the restatements lowered rather than raised income. This finding is consistent with prior research by Srinivasan (2004) and Hackenbrack and Hogan (2002) on income-decreasing and non income-decreasing errors. Indeed, 13 of the 19 restatements found in this study lowered income; only one of the restatements raised income and only by 0.3 percent. Five of the restatements either did not affect income or their effects were offsetting. Companies in the shaded region of Table 2 reported income-decreasing restatements, and companies in the non-shaded region reported non income-decreasing restatements. In addition, the "percentage change in pre-tax income" column of Table 2 identifies (from most negative to most positive) the percentage of decrease or increase in income before tax for the related company.

The restatements were almost equally divided between income-decreasing and non income-decreasing. As hypothesized, companies with material income-decreasing restatements were more likely to change auditors. In fact, 6 of the 9 companies that reported income-decreasing restatements also experienced a change in auditor. On the other hand, none of the 10 companies that reported non-income-decreasing restatements experienced a change in auditor. Although the number of restatements due to error is relatively small, these findings strongly support the hypothesis that there was a significant association between companies with income-decreasing restatements and change in auditor. These findings extend prior research by Wallace (2005) and Srinivasan (2004) by showing that the magnitude, not simply the direction of a restatement was important in explaining when a change in auditor was likely to occur.

Table 2: Fortune 500 Companies with Restatements Due to Error and Change in Auditor During 2001 and 2002
By Impact of Restatements

	Company	Year(s) of Restatement	Years Affected	Change in Auditor Occurred	% Change in Pre-tax Income
Income-decreasing by more than 5.0%	Quest Communications	2002	2000-2001	Yes	(146.1%)
	Xerox	2002	1997-2001	Yes	(35.5%)
	PNC Financial Services	2002	2001	**No**	(33.5%)
	Dollar General	2001	1998-2000	Yes	(32.3%)
	Cendant	2001	1995-1997	**No**	(24.5%)
	Enron	2001	1997-2000	Yes	(22.1%)[2]
	Dynegy	2002	1999-2001	Yes	(16.2%)
	Interpublic Group	2002	1997-2001	**No**	(11.3%)
	CMS Energy	2002	2000-2001	Yes	(7.4%)
Income-decreasing by 5.0% or less or income-increasing	ConAgra	2001	1998-2000	No	(4.6%)
	AOL Time Warner	2002	2000-2001	No	(1.1%)
	Kroger	2001	1998-1999	No	(0.5%)
	Avon Products	2002	1999-2001	No	(0.1%)
	Enterprise Products	2002	2000-2001	No	0.0%[3]
	Exelon	2002	2001	No	0.0%[4]
	Kmart	2002	2002	No	0.0%[5]
	Reliant Resources	2002	2001	No	0.0%[6]
	Tyson Foods	2001	1998-1999	No	0.0%[2]
	Allegheny Energy	2002	2001-2002	No	0.3%[1]

[1] Though there were a total of 20 restatements due to error during 2001 and 2002, Xerox reported two restatements. Thus, 19 companies reported restatements due to error
[2] Pre-tax income was not available. Thus, the percentage change is based on net income.
[3] Restatement affected segment income but not consolidated income.
[4] Restatement affected deferred taxes and other comprehensive income but not income.
[5] Error and restatement occurred within the same fiscal year; no restatement of prior years' income occurred.
[6] Revenue and expense restatements were offsetting—no effect on income.

CONCLUSION

Much has been written about the presence of restatements in the financial accounting and reporting process. This paper identified and confirmed two hypotheses related to restatements. First, we found that material restatements due to error generally lowered rather than raised income. Second, we documented that companies reporting restatements that materially reduced income were more likely to change auditors. The former finding provided further empirical support for results of studies by Srinivasan (2004) and Hackenbrack and Hogan (2002) that showed companies more often make errors that overstate rather than understate income. The latter finding confirmed prior research by Wallace (2005) and Srinivasan (2004) that suggests that a change in auditor occurs when income-decreasing restatements become necessary. More importantly, this study extended the results of the Wallace (2005) and Srinivasan (2004) studies by showing that the magnitude, not simply the direction, of a restatement was important in explaining when a change in auditor was likely to occur. While this research provided strong support for the stated hypotheses, additional research is needed. This study only considered Fortune 500 companies with restatements due to error for the years 2001 and 2002. Future research should consider a larger number of restatements that spans a longer period of time.

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APPENDIX A

Selected Financial Statement Data for Companies Experiencing Both Restatement and Change in Auditor During 2001 and 2002

Dollar General - 2001 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
1998	$ 281	$ 239	$ (42)	335.8	$ 0.84	$ 0.71	$ (0.12)	-15%
1999	344	295	(49)	337.9	1.02	0.87	(0.15)	-14%
2000	323	109	(214)	333.9	0.97	0.33	(0.84)	-66%
Totals/Avg	**$ 948**	**$ 642**	**$ (306)**	**335.8**	**$ 2.82**	**$ 1.91**	**$ (0.91)**	**-32%**

Xerox- 2002 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
1997	$2,005	$1,287	$ (718)	653.4	$ 3.07	$ 1.97	$ (1.10)	-36%
1998	579	(13)	(592)	659.0	0.88	(0.02)	(0.90)	-102%
1999	1,908	1,288	(620)	663.2	2.88	1.94	(0.93)	-32%
2000	(384)	(367)	17	667.6	(0.58)	(0.55)	0.03	4%
2001	(137)	365	502	704.2	(0.19)	0.52	0.71	366%
Totals/Avg	**$3,971**	**$2,560**	**$ (1,411)**	**669.5**	**$ 5.93**	**$ 3.82**	**$ (2.11)**	**-36%**

CMS Energy - 2002 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
2000	$ 90	$ (3)	$ (93)	113.1	$ 0.80	$ (0.03)	$ (0.82)	-103%
2001	(401)	((331)	70	130.8	(3.07)	(2.53)	0.54	-17%
Totals/Avg	**$ (311)**	**$ (334)**	**$ (23)**	**121.9**	**$ (2.55)**	**$ (2.74)**	**$ (0.19)**	**-7%**

Dynegy - 2002 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
1999	227	197	(30)	230.0	0.99	$ 0.56	$ (0.13)	-13%
2000	762	682	(80)	315.0	2.42	2.17	(0.25)	-10%
2001	915	716	(199)	340.0	2.69	2.11	(0.59)	-22%
Totals/Avg	**$1,904**	**$1,595**	**$ (309)**	**295.0**	**$ 6.45**	**$ 5.41**	**$ (1.05)**	**-16%**

APPENDIX A

Selected Financial Statement Data for Companies Experiencing Both Restatement and Change in Auditor During 2001 and 2002

Qwest Communications - 2002 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
2000	126	(2,034)	(2,160)	1,272.1	0.10	(1.60)	(1.70)	-1714%
2001	(3,958)	(7,395)	(3,437)	1,661.1	(2.38)	(4.45)	(2.07)	-87%
Totals/Avg	**$(3,832)**	**$(9,429)**	**$ (5,597)**	**1,466.6**	**$ (2.61)**	**$ (6.43)**	**$ (3.82)**	**-146%**

Enron - 2001 Restatements

Year	Pretax Income - $ Millions			# of Shares Millions	Pretax Income - Per Share			% Change
	Reported	Restated	Change		Reported	Restated	Change	
1997	$ 105	$ 9	$ (96)	650.0	$ 0.16	$ 0.01	$ (0.15)	-91%
1998	703	590	(113)	695.0	1.01	0.85	(0.16)	-16%
1999	893	643	(250)	810.0	1.10	0.79	(0.31)	-28%
2000	979	847	(132)	875.0	1.12	0.97	(0.15)	13%
Totals/Avg	**$2,680**	**$2,089**	**$ (591)**	**757.5**	**$ 3.54**	**$ 2.76**	**$ (0.78)**	**-22%**

APPENDIX B

Case Studies – Fortune 500 Companies with Errors & Auditor Changes (2001/2002)

Dollar General

On April 30, 2001, Dollar General announced that it would restate its audited financial statements for fiscal years 1998 and 1999, as well as the unaudited financial information for the fiscal year 2000 that had been previously released. The company subsequently completed a review of its financial statements that identified several accounting issues in addition to those that were announced on April 30, 2001. Some of the accounting issues that caused the company to restate its financial statements were: litigation settlement expenses, COGS – Incorrect recording & inaccurate estimates, SG&A – Incorrect recording & expenses not accrued, capital leases & financing, obligations incorrectly recorded as operating leases, tax provision changes for correction of errors.

On September 21, 2001, Dollar General issued an 8-K that reported a change in auditor. Deloitte & Touche was dismissed, and Ernst & Young was engaged.

Xerox

On April 1, 2002, Xerox announced a second restatement of its financial statements for fiscal years 1997 through 2000, as well as an adjustment to fiscal year 2001 that had been previously released. This was the result of a settlement with the SEC. As in the first restatement, Xerox determined that it had misapplied GAAP in some of its accounting practices. The restatements were caused mostly by timing and allocation of revenue and expense recognition from bundled leases. Those leases were reallocated among equipment, service, supplies, and finance revenues using a more appropriate methodology.

On October 5, 2001, Xerox issued an 8-K that reported a change in auditor. KPMG was dismissed, and PricewaterhouseCoopers was engaged. KPMG was investigated by the SEC and faced lawsuits over their role in the errors.

CMS Energy

On March 31, 2003, CMS Energy released its annual report for 2002. As part of that annual report, the company restated its financial statements for fiscal years 2000 and 2001. In connection with the re-audit concerning the practice of recording “round-trip” trades on a gross basis, CMS Energy determined to make other adjustments to its consolidated financial statements for those years. From May 2000 to January 2002, CMS Energy engaged in transactions in which energy commodities were sold and repurchased at the same price. These transactions inflated revenues, operating expenses, accounts receivable, accounts payable, and reported trading volumes. The company subsequently decided that the round-trip trades should have been recorded on a net basis.

On April 29, 2002, CMS Energy issued an 8-K to report the dismissal of Arthur Anderson as the company’s certifying accountant. On May 29, 2002, the company issued another 8K to report the engagement of Ernst & Young.

Dynegy

On April 11, 2003, Dynegy released its second amended annual report for 2001. As part of that amended annual report, the company restated its financial statements for fiscal years 1999 through 2001. The company completed a review of its financial statements that identified several accounting issues. Some of the accounting issues that caused the company to restate its financial statements were: cash flow classification, balance sheet presentation, and tax benefit reversal, natural gas accruals versus actual results, hedge accounting, valuation of common stock issued as consideration, valuation of long-term power contracts, incorrectly recorded operating leases, value of conversion option for ChevronTexaco, and errors in book-tax basis differences.

On March 19, 2002, Dynegy issued an 8-K that reported a change in auditor. Arthur Anderson was dismissed, and PricewaterhouseCoopers was engaged.

Qwest Communications

On October 16, 2003, Qwest Communications released its annual report for 2002. As part of that annual report, the company restated its financial statements for fiscal years 2000 and 2001. The company determined that, in certain cases, they misinterpreted or misapplied GAAP. The restatements were mainly caused by revenue recognition issues involving optical capacity asset transactions, equipment sales, and directory publishing and purchase accounting.

On May 31, 2002, Qwest Communications issued an 8-K that reported a change in the company’s certifying accountant. Arthur Anderson was dismissed, and KPMG was engaged.