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The Progression of Financial Restatements: Causes and Market Reaction

Kimberly M. Jarry

University of New Hampshire - Main Campus, kmk226@wildcats.unh.edu

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The Progression of Financial Restatements:
Causes and Market Reaction

Kim Jarry

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Dr. Le Xu

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I. Introduction

Since 2002, the reporting of financial information by companies has been drastically modified, as companies have become quite protective after the scandals that transpired with gigantic corporations such as Enron and WorldCom. Investors lost trust in many corporations and became hesitant to invest any capital. Many were fearful about the validity of the information they were receiving regarding the financial positions of corporations. Enron and WorldCom were just the beginning of what became a slippery slope for many other corporations, as a result of similar fraudulent behavior. These multibillion dollar scandals caused investors everywhere to question their investments. In order to cease this downfall and in an attempt to help bring back some trust to investors, the Sarbanes-Oxley Act of 2002 was introduced and enacted in order to restrict future attempts of fraudulent acts by corporations.

According to the Sarbanes-Oxley Act document published by the Securities and Exchange Commission, the purpose of the act was, “to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.” (Public Law 116 STAT. 745, 1) This act has helped establish guidelines and direct several corporations in creating strong internal controls for their own corporations. A major contribution to the Sarbanes-Oxley Act was section 404, which requires management to assess the effectiveness of the internal controls they have in place. Research later analyzed by Marlene Plumlee and Teri Lombardi Yohn and confirmed by our study shows that poor internal controls are often the cause of financial restatements. By requiring management to observe and evaluate their controls, it will not only stop problems much sooner, but it also holds them liable if a problem is found in the future by an auditor. As part of this implementation, the internal controls are also evaluated as part of the audit.

The assessment of internal controls gives stakeholders some level of evaluation over how risky the structure of the company is. Management and auditors analyze the duties in the company to ensure all appropriate duties are segregated in order to limit fraud. Also, the internal controls monitor that all directives have been implemented correctly. Often times, this is the biggest cause of errors, as there is not an adequate understanding of how to implement standards, or because they are complex, and thus during the implementation an error occurs in the computation.

In addition, because upper management became required by section 302 of the Sarbanes Oxley Act to verify that all the information in the financial statements was correct, management became individually responsible and subsequently took more interest in ensuring accurate information. Upper management became progressively more concerned over the information they were publishing and their resulting reputation. After witnessing the collapse of several billion dollar companies, they wanted to ensure and were required to be as accurate as possible. If corporations come to discover a material error, they are required by regulation to disclosure of the error(s) either in an 8-K or in a press release and make the immediate required adjustments for the appropriate time periods.

Regardless of the materiality of the errors, a firm is required to file an 8-K within four business days and disclose the problems as stipulated in section 4.02 by the Securities and Exchange Commission. This informs investors and other stakeholders that the previously reported information can no longer be relied upon. Although an 8-K reports all errors, only those that are considered material by SAB Standard 99 are required to be restated in either a 10-K/A or 10-Q/A, noting the changes. (Irani 6)The SAB materiality standards can be found in SAB 99, which stipulates that, “The omission or misstatement of an item in a financial report is material

if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.” (SEC Staff Accounting Bulletin: No. 99, 9) Typically the independent auditor would discover and advise firms to disclose of the error and management would then have a duty to ensure the modifications were made.

In particular, section 302 of the Sarbanes-Oxley Act requires management, specifically the CEO and CFO, to certify that the financial statements were presented fairly in all material aspects, as well as certifying the adequacy of their internal controls. However, with the increasing complexity in corporate accounting, it became evident that there were less members of management with the adequate knowledge that were able to verify the results. In a study conducted in 2001, “only 20% of the CFO’s at the Fortune 500 companies were Certified Public Accountants” (Aier 124) Aier proclaimed that a lower percentage of CFO’s had the appropriate accounting knowledge and training compared to past trends. This change most certainly had an effect on the application of the accounting standards. (124)

Between the decline in appropriate accounting knowledge, and the increase in accounting standards complexity, it is not surprising the immaculate level of restatements that were occurring. In a study conducted by the General Accounting Office, the number of financial restatements that occurred in the 2001, the same year the Enron Scandal surfaced, was at just 229. (Aier 123) In a similar study conducted for the fiscal year of 2006, 1,600 firms had filed restatements. This number “represented about 10 percent of public companies.” (Badertscher

611). Researchers became concerned as to the reasoning for this 600% increase in restatements being filed over this five year time span.¹

Since 2006, Badertscher noted the number of restatements has declined, although the number of restatements is still alarming. (611)The decline may be due to corporations solving their internal control inadequacies, and corporations adapting to the changes from Sarbanes-Oxley. However, it is still concerning as to the high number of restatements being filed whether due to the complexities in applying standards, that CFO's do not have the adequate knowledge to verify the corporation's financials, or that companies do not have the necessary control environments in place to limit the problems in the future.

After this unforeseen high number of restatements, there was heavy research conducted for topic of financial restatements. Since the infamous scandals and the few years following, the research of financial restatements has been limited. The study outlined in this paper analyzes companies from fiscal year 2009 to update the research and restatement trend analysis. After identifying 38 companies that filed financial restatements in 2009, we identified their disclosure date and found the adequate documentation of the restatement. We then proceeded to look at the financials and analyzed the effect the restatement had on certain variables of the company including: the effect the restatement had on the net income, the accounts and the accompanying magnitude and lastly the market reaction to the price in stock following the disclosure of restatement. The information was collected, sorted and afterward analyzed for causes.

As will be analyzed and deciphered further in our study, we found that typically when a restatement occurs, there is a negative impact on net income. In addition, there are between 10

¹ A calculation on my part was derived using the two similar studies. The restatements increased from 229 to 1600 over the noted time period. The calculation was derived as follows: $(1600-229)/229 = 598\%$ increase.

and 20 accounts that must be restated over 0.25 years to 2.5 years. Finally, generally speaking, there was a negative market reaction following the disclosure of a restatement.

II. Literature Review

Although it is usually assumed that a restatement is due to fraudulent behavior, there are actually far more likely reoccurring reasons as to these restatements. In a study conducted by Marlene Plumlee and Teri Lombardi Yohn, they were able to derive four specific reasons that could be attributed to financial restatements following the enactment of the Sarbanes-Oxley Act. The causes that can be attributed include: errors in the corporation's internal controls, intentional misrepresentation, problems from complex transactions, or a problem that occurred from an accounting standard, such as the applier did not have a full understanding of its application, or simply incorrect application of the standard. It was determined in their study that a majority of the restatements they analyzed in their sample were filed due to lack of or poor internal controls by the corporation. (42)

After the infamous scandals of Enron and WorldCom, there was a general market-wide presumption that a majority of the restatements were derived from fraudulent activities. However, it was discovered in the market analysis study conducted by Plumlee and Yohn that a majority of the restatements were caused either from poor internal controls or complications with accounting applications. These two reasons accounted for 94% of the restatements from 2003-2006. (Plumlee 42) ²

Following analysis of the restatements, it was determined by Plumlee and Yohn that most companies lacked adequate internal controls. Section 404 of the Sarbanes-Oxley Act addressed

² This study is continuously referenced throughout the paper and correlates well with our study. Note the dates of the study and the fact that the trend is continuous regardless of the dates.

this prominent problem and was created with the intentions of notifying investors of a problem, as well as to help corporations identify and resolve their internal control problems. This section required corporations and auditors to assess their internal controls on an annual basis along with their financial statements. The larger corporations have since adapted to the required changes and subsequently have developed stronger internal controls as they have the immediate substantial capital that smaller companies do not have. (Williams 9) A small company can be defined as having under \$1 billion in market capitalization while a large company is defined as having \$8 billion or more in market capitalization. (Investing 101, 6-8) A majority of the companies in existence today are small companies, thus it takes them longer to implement these changes. As a result of the larger companies adapting to the required changes and executing better controls, “the number of restatements declined after 2006, [but] restatements still dwarf those of a decade ago.” (Badertscher 611)

In the same study as previously noted by Marlene Plumlee and Teri Lombardi Yohn, they also analyzed the net effect on net income. Not surprisingly, the study revealed that 54% of the restatements witnessed a negative impact to net income when they were required to restate, and 26% had no effect on net income at all. These results are conclusive from the sample from 2003-2006 and have been averaged over their time periods. As later revealed, these numbers appear to be relative to the results that our study has similarly concluded.

Net income can be effected by revenue and expenses and thus if 54% of companies with restatements alone had a negative impact on net income, it means they either had a revenue or expense issue. Not surprisingly, in a study conducted in 2006 by the General Accounting Office they analyzed the accounts affected and the causes of the restatements before and after 2002. From 1997 to 2002, about 40% of the restatements were due to a revenue problem and just 16%

were due to a cost or expense issue. However, from 2002 to 2005, about 35% of the restatements were from cost or expenses and just 20% of the restatements were from revenue errors.

(Williams 17) The number of restatements due to revenue problems decreased by half and the number of restatements due to cost or expense errors were over double that prior to 2002. The reason as identified by the GAO was due to the increased complexity in different expense related accounts, such as leases or tax expenses. (Williams 18) Both before and after, revenue and expense related problems accounted for over half of the restatements, which explains the previously indicated impact on net income.

With this drastic increase in restatements, critics were wondering where the auditors were in these cases and why the mistakes were not caught the first time around. Unfortunately the increase drew a high negative light on auditors, as it was their job to be objective in their observations and protect investors. After much debate over the reasons for the high number of restatements in relation to auditors, it was synthesized in an article by Robin Romanus, John Maher and Darmon Fleming that when auditors specialized in a particular industry and focus on the core accounts, it is less likely restatements will occur. Based on historic information, most times the difficulties arose in the specialized accounts that were not often seen, as they were particular to an industry. By allowing auditors to become experts in certain industries, it increased the reliability as they were more familiar with the major accounts in that field. Since the realization that auditors play an important role of the integral process, they must adapt to these issues. (389-390)

As previously noted, management is required to assess their company's internal controls. In addition to management's assessment of internal controls, the auditors are also required to give an opinion as stipulated in Section 302 of the Sarbanes Oxley Act. Not only will this give

the auditors a better insight into how the firm runs and operates, but it requires them to go step by step through many of the processes. By providing an unbiased view on the processes, it may allow for them to discover an error in the process that was previously unseen. Increasing the external auditor involvement in the activities typically conducted by a company has not only helped limit the number of restatements, but it has also improved the reputation for auditors.

Furthermore, in a study conducted by Thomas Lopez, Scott Vandervelde and Yi-Jing Wu, they discovered how valuable the auditor's opinion on internal controls really was for investors. In their analysis, it was revealed that when auditors provided an adverse opinion, it was a strong signal to investors that future financial restatements were likely to occur, as well as the company being a high risk investment due to the uncertainty and unpredictability. Moreover by lacking sufficient internal controls, management was creating information asymmetry. The purpose of adding this opinion to the auditing process was to increase investment confidence with regards to the future of these companies investors were giving capital to. (Lopez 1)

Thus, it can be interpreted inversely that an unqualified opinion is a strong indication of a good, low risk investment for investors. By adding this step to the auditing procedures, it increased investor confidence in the companies they were pursuing. Likewise, stakeholder confidence in the auditors increased, as they were helping create higher-value opinions not only for the short-term, but for the long term by assessing the internal controls. Lastly, because auditors were evaluating companies' internal controls, it helped decrease the time length over periods that would be effected due to a restatement because of early detection and even helped prevent many future internal control problems.

III. Data Collection:

We collected 38 Non-financial companies from the Audit Analytics database that represented 9 different industries and that disclosed a restatement in the fiscal year of 2009. We then searched Lexis-Nexis and EDGAR to find the appropriate disclosures of each financial restatement either through an 8-K or a press release. In addition, the Yahoo! Finance database was used to obtain the market reaction data for the days prior to and after the disclosure of a restatement. After analyzing their disclosures and the restated financial statements, such as their 10-K/A or 10-Q/A for the effected period, certain variables were collected and analyzed. These variables included their change in net income and the accounts effected as well as the accompanying magnitudes prior to and subsequent to the restatement. Due to the lapsed time since these disclosures, 3 of the initial companies in the sample lacked the adequate information regarding their disclosure and the variables we were analyzing to perform further analysis on, and thus resulted in removal from all accompanying analysis.

Among the analyzed criteria collected from these financial statements were the type of accounts affected, as well as the magnitude and the overall effect on the company's net income. This information was pulled directly from the restated financials. Finally, we analyzed the market reaction by looking at the change in stock price before the disclosure and after the disclosure of financial restatement to analyze what effect the disclosure had on the relative return on the company's stock. The market reaction was viewed based on industry, effect on net income and number of accounts affected. The market reaction by industry was also analyzed to determine its statistical and economical significance.

IV. Sample Analysis:

In our study, we conducted an analysis on 35 companies that were required to file a restatement. Of these 35 companies, one was Methode Electronics, Inc.³, a company a part of the technology industry. MEI creates unique first-to-market technologies that are customer specific in helping provide them with a competitive advantage. They specialize in switches, sensors and interfaces and remain to be amongst some of the most well respected companies. (About Methode 1)

Unfortunately, on June 23, 2009 MEI disclosed in an 8-K that they violated section 4.02 - Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review. In this disclosure, they identified that in their third quarter ended November 1, 2008 a material error had occurred related to “unrealized currency exchange losses arising from an inter-company loan between the Company and one of its foreign subsidiaries in conjunction with the acquisition of Hetronic, L.L.C., purchased on September 30, 2008.” (Koman 1) Because of this material error, they subsequently reviewed their internal controls in relation to this issue and found a significant deficiency in this area they would improve for the future. Had this internal control been adequate, the restatement would never have occurred. Luckily, they caught the error early on and were able to make easy adjustments.

Additionally in their 8-K, MEI noted they had made adjustments to their 10-Q for the effected period that had been filed in combination with the 8-K disclosing the problem. This 10-Q/A revealed all adjustments necessary due to the material error and all related information represented below are derived from this 10-Q/A restatement.

³ Furthermore Methode Electronics, Inc. is known as MEI.

For the quarter ended November 1, 2008 there was just 4 accounts that were affected due to the restatement. The effects of the accounts are as follows:

- Retained Earnings decreased from \$270,826 to \$268,363 (\$2,463 decrease)
- Accumulated Other Comprehensive Income increased from \$11,472 to \$13,935 (\$2,463 increase)
- Other, Income decreased from \$1,853 to (\$610) (\$2,463 decrease)
- Net Income decreased from \$2,701 to \$238 (\$2,463 decrease)

All magnitudes were impacted by \$2,463 as a result of the \$2,463 unrealized currency exchange loss that had a domino effect, resulting in a decrease in net income and retained earnings. This restatement although material has minimal impact on the number of accounts restated as well as their net impact. In addition, the net income although materially decreased by about 91%, it was relatively nominal compared to other companies in this sample. It did fall well within the average negative net impact on net income that will be identified later in this study. Lastly, they only had 0.25 years effected, as just one quarter resulted in an error and was realized two quarters later.

Three days prior to disclosure, MEI was trading on the stock market for \$5.50 and three days after the disclosure, they were trading at \$6.10. Surprisingly, after the disclosure, the stock increased in value by \$0.20 and experienced a 2.52%⁴ market return. This is not correlated to our sample results, but may be a result that the period of effect was minute, as well as the impacted accounts was limited. Due to the low severity of the error, investors did not react poorly to the disclosure.

⁴ $(6.0967 - 5.9467) / 5.9467 = 2.5224\%$ Stock Return on MEI for the week of disclosure.

The company's 8-K and corresponding 10-Q/A adjusted financial statements can be observed in the appendix item 2 and 3 below.

V. Empirical Analyses:

a. Impact on Net Income

After collecting the data, it was our objective to analyze the effects the financial restatements had on the previously identified variables. The first of these variables was the effect the restatement had on net income. As expected, a majority of the restatements resulted in a negative impact to net income. As seen in Table 1.1 – Net Impact on Net Income by Industry, about 67% of the companies by industry reported an adjusted negative impact on net income, while 11% reported no effect on net income after the adjustment.⁵ The net impact on net income is the average of all periods for all firms in the identified industry. Some industries were impacted more severely than others due to several factors that will be identified later in this paper, such as the numerous specialized core accounts.

Also observed in Table 1.1 below, overall there was a level of material change in net income following restatements. Based on this sample, the average negative net impact for the overall sample was (\$185,364) due to the high negative net impacts in the industrial and retail industries that skew the results. The average positive impact on net income was \$178,705 which was skewed by the services industry; otherwise this number would be a fraction of this average. Based on these calculated averages, the average net impact was (\$6,659). From these results, it can be derived that typically when a financial restatement occurs, on average there is a material negative impact on net income.

⁵ 6 out of the 9 industries reported a negative impact on net income, while 1 out of the 9 industries reported no impact. The calculations were derived as follows: $6/9 = 67\%$; $1/9 = 11\%$

Table 1.1 – Net Impact on Net Income by Industry

Net Impact on Net Income by Industry						
Industry	Number of Firms	Number of Firms with Net Negative Impact on NI	Average Net Negative Impact on NI	Number of Firms with Net Positive Impact on NI	Average Net Positive Impact on NI	Number of Firms with No Impact on NI
Basic Materials	4	2	(\$5,241.75)	1	\$2,881.00	1
Entertainment	1	1	(\$346.00)	0	\$0.00	0
Health Care	4	2	(\$275.17)	1	\$362.00	1
Industrial	4	2	(\$826,096.67)	2	\$603.75	0
Pharmaceuticals	1	0	\$0.00	0	\$0.00	1
Retail	2	2	(\$455,344.00)	0	\$0.00	0
Services	10	6	(\$9,191.88)	4	\$889,537.17	0
Technology	8	7	(\$1,049.21)	0	\$0.00	1
Utilities	1	0	\$0.00	1	\$140.50	0

In summation, Table 1.1 provides an initial overview of the net impact on net income by industry. By outlining the industries impacted in the sample, as well as the number of firms applicable to the industry, it provides information on the average net impact on net income as previously discussed.⁶

b) Number of Periods and Accounts Affected

The next variable we analyzed is the number of periods effected due to a restatement. Although the table above stipulates the number of firms that were affected within each industry, it fails to identify how many periods are taken into account when calculating the net impact on net income. Each firm varied in the number of years of impact, restating just one quarter to restating a few years. The number of periods is an important factor as it reveals how serious the issue is, as well as how long the problem went without being noticed. The average number of years effected per firm within each industry was between the range of 0.25 and 2.5 years as seen in Table 1.2 - Summary of Financial Restatement Effects. Based on calculations, the average

⁶ The numbers with regards to impact in net income are in thousands of dollars.

overall length of impact was about 1.5 years and was required to be adjusted in their restatements. This is a positive revelation as it means that a majority of the effects were not due to long term problems and were fixed relatively quickly after they were discovered. This may be due to the stricter Sarbanes-Oxley requirements enacted or that companies now have a better understanding of difficult accounting applications and have learned the appropriate ways to apply their internal controls and accounting standards. Further analysis of the restatement implication will be witnessed further on in this analysis.

As a result of all of the restatements that occurred for all companies in this study, there were a total of 559 accounts that subsequently were required to be restated. As seen in Table 1.2 below, the average number of accounts per firm was quite varied across the industries ranging between 5 – 57 accounts. Due to there being just one firm in the utilities industry, the high number of 57 effected accounts for the lone company skews the rest of the data and should be observed with due consideration. By ignoring this industry for the moment, the average number of accounts affected can then be calculated to be between 5 – 20 accounts affected per firm.

This is a moderately large range and the analysis of the results is dependent on the end of this range a company falls. For instance, if a company restates 6 accounts, it is likely that a majority of these are interconnected and resulted from a chain effect due to a problem in 1 account. However, if there are 18 accounts that are affected, it is likely that more than a few of these had initial errors in them while the rest were a result of the chain effect.

A summation of the net effect on net income the accounts effected as well as magnitude and the number of years effected by financial restatements can be further witnessed in Table 1.2: Summary of Financial Restatement Effects.

Table 1.2 - Summary of Financial Restatement Effects

Summary of Financial Restatements Affects				
Industry	Number of Firms	Average Number of Effected Accounts Per Firm	Average Number of Years Affected	Net Impact on NI
Basic Materials	4	5	0.625	(\$2,172)
Entertainment	1	10	0.500	(\$346)
Health Care	4	12	1.750	(\$105)
Industrial	4	19	1.000	(\$117,386)
Pharmaceuticals	1	6	2.000	\$0
Retail	2	8	0.375	(\$910,688)
Services	10	20	2.550	\$299,098
Technology	8	16	1.125	(\$3,281)
Utilities	1	57	2.000	\$141

Some of the company's 8-K's that announced these restatements outlined the general errors, but many failed to identify any specific accounts or the magnitude of the accounts that would have to be changed. These adjustments were not made public until they filed their 10-K/A or 10-Q/A. As a result, all information used in our study with regards to effected accounts and magnitude was derived from their financial restatements. Attributable to the accounts interconnectedness, several accounts may be affected by an initial error in one account. In the case that revenue recognition was the problem; it subsequently effected net income and retained earnings meaning that 3 accounts were affected. All effected accounts were accumulated in this summation, resulting in this very high number of effected accounts per firm.

Many accounts were interconnected and thus often created a domino effect down the line. The industries with the highest number of average accounts restated, disregarding the utilities industry, were the services and industrial industry. Reflecting on the information revealed earlier, industry specialization has a major effect on financial disclosure. Because these industries have some accounts that require specialized knowledge, it is not surprising they have the highest

number of accounts affected. In correlation, not only did the services industry have the highest average number of effected accounts per firm, but they also had the highest number of companies by industry. This can be inferred that the services industry accounted for a material amount of the total of 559 effected accounts. It is also likely that since this time, both the companies and their accountants have become familiar and improved their implementation of the specialized accounts to limit further restatements.

c) Top Ten Restated Accounts

It was discovered that there were hundreds of accounts within these 35⁷ companies that were required to be adjusted following identified errors; however, there were ten accounts that were repeatedly restated. The accounts can be identified in Table 1.3 – Top Ten Effected Accounts. Within the top 10 effected accounts from our study, there are three expense accounts and the revenue account. These results are consistent with the study conducted by the GAO, as they had observed that expense accounts accounted for about 35% of restatements. Revenue accounts were accounting for about 20% of restatements, but were dropping. (Williams 18)

Revenue recognition had long been a major issue causing financial restatements and many companies struggled to identify when revenue was able to adequately be reported. It became evident to FASB that the revenue recognition standards could use improvement; since this identification and initial steps towards international convergence in 2006, FASB has been working on improving the revenue recognition process. FASB has been hard at work creating clear guidelines on when to recognize revenue. As part of this process their main proposal

⁷ As stated in data collection, three of the firms were removed due to lack of data. In the rest of this paper, the assumption is that the information is based on the 35 firms.

identifies 5 key steps of the revenue process that must be satisfied in order to recognize revenue.

These include:

1. “Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied.”

(FASB and IFRS Revised 1)

Once these aspects have been met and the good and/or service have been fully rendered, then revenue can be satisfactorily recorded according to converged standards. This FASB and IFRS project is continuously being modified and improved with the intention of full execution by 2015. Once these updated standards are in place, it is likely that revenue recognition problems will be a minimal cause of financial restatements.

Also, reflecting back on the research conducted by the General Accounting Office in 2006, since SOX the number of restatements due to revenue problems decreased by half and the number of restatements due to cost or expense errors were over double what they were before SOX. The GAO identified that this increased number of errors due to expense accounts was resultant from the complexity in these different accounts. Although expense accounts have remained a major reason for restatements, some companies have found ways to correct for the complexities since the time this study was conducted for year ending 2005.

Furthermore, many of these accounts within the top ten are interrelated, but this is a result of to the vagueness of many of the disclosures provided by companies. Additionally, because

there was impact on one account, there was a subsequent impact on further accounts which can also be identified in Table 1.3. For example, because revenue was required to be restated within a financial restatement, it consequently affected the income tax expense.

Table 1.3 - Top Ten Effected Accounts

Top 10 Affected Accounts			
	Account	Average Net Effect	Total Accounts Affected
1	Income Tax Provision/Benefit	(\$142,701)	51
2	Total Assets	\$102,288	43
3	Retained Earnings	\$126,030	38
4	Shareholder's Equity	\$138,145	36
5	Deferred Taxes (Liability)	(\$3,812)	36
6	Cost of Goods/Services	\$1,341	30
7	Selling, General & Administrative	\$1,501	24
8	Revenue	(\$884)	20
9	Total Liabilities	(\$1,897)	18
10	Income Tax Expense	(\$6,493)	15

Another item to note from the table is that the top 4 accounts that were repeatedly restated also are of the highest material effect. Due to the materiality and consistent need to be restated, these accounts should be observed further to identify specific causes in order to limit further similar occurrences.

d) Stock Market Reaction to Restatements

Usually when a restatement is announced, the assumption is that the market faces a negative reaction because it is viewed that the investors had been relying on incorrect financial information when making investment decisions. Consequently, investor confidence drops ultimately decreasing the market trading price and providing a negative market return. After

analyzing the impact on net income, and the number of accounts restated, the correlating market reaction information was collected and analyzed. The market reaction for each company includes the average stock price for three days prior and three days following the disclosure, ultimately presenting the change in return for the week of the disclosure. The change of the stock price before the disclosure and after the disclosure was then calculated to determine market return, or the comparable market impact. Usually when similar research is conducted, the analysts use one to two days before and following restatements. However, due to the small sample size, three days was used for smoothing purposes to give a better indication of what the market would look like.

The initial market reactions observed based on industry segmentation was inconclusive, as there were very mixed results. These results can be observed in Table 1.4 – Market Reaction by Industry as pictured below. Although a majority of the industries represented (55%) resulted in a negative market reaction, there was still 45% of the industries that had a positive market reaction. It cannot be concluded whether a particular industry has an effect on the applicable market reaction; however, it can be concluded that more likely than not a restatement will result in a negative market reaction.

Table 1.4 – Market Reaction by Industry

Market Reaction by Industry	
Industry	Stock Price Change - 3 Day Average
Basic Materials	-19.7963%
Entertainment	2.0715%
Health Care	-3.3854%
Industrial	0.9289%
Pharmaceuticals	12.3756%
Retail	4.4152%
Services	-5.5847%
Technology	-3.8841%
Utilities	-3.8841%

As previously observed, 6 out of 9 of the industries averaged a negative change in net income. It would be logical that a restatement would cause a negative market reaction, because the stock was either overvalued and investors were not confident in the company or the data they were providing. After collecting net income information, we then looked at the market reaction for these companies and averaged them based on their impact on net income. The results for this observation unsurprisingly produced a negative market reaction across the board. These results can be viewed in Table 1.5 – Market Reaction by Change in Net Income. Based on the data, the change in market reaction was quite minimal for companies that experienced a positive change in net income. Also, the market reaction for companies with a negative change in net income was 3.5 times higher than the companies with a positive change in net income. This is a logical observation; however the number of companies within each segment is an important detail. There were 22 companies with a negative change in net income, which allowed an accurate average to be determined. In regards to the companies that experienced no change in net income,

there was an even higher negative impact on market reaction; however there were only 4 companies in this segment, thus it is not very representative and should not be heavily relied upon. It would be expected that a negative impact on net income would produce the highest negative market reaction, which may have been produced had there been a bigger sample.

Table 1.5 – Market Reaction by Change in Net Income

Market Reaction by Affect on NI		
Net Affect on NI	Average Change in Stock Price - 3 Day Average	Number of Companies
Positive	-1.5041%	9
Negative	-5.2666%	22
No Effect	-7.3375%	4

Based on an analysis of each industry’s average market return and standard deviation, a T-Test was conducted to reveal whether the returns were statistically different from zero. The unpaired T-Test used two tails and was conducted in Microsoft Excel. The T-Test produced a P value of 0.032, which by standards is considered to be statistically significant. The results from this test can be viewed in Table 1.6 – Statistical Significance: T-Test below.

Table 1.6 – Statistical Significance: T-Test

Statistical Significance: T-Test		
Industry	Average	Standard Deviation
Basic Materials	-19.7963%	15.0007%
Entertainment	2.0715%	0.0000%
Health Care	-3.3854%	4.4424%
Industrial	0.9289%	7.6278%
Pharmaceuticals	12.3756%	0.0000%
Retail	4.4152%	5.1561%
Services	-5.5847%	23.4287%
Technology	-3.8841%	18.4055%
Utilities	0.0957%	0.0000%
P Value		0.03216187

Furthermore, we annualized the returns to view the economic significance these returns hold. In order to annualize the returns, we took the averages of the returns by industry that were previously noted and converted them to daily returns. Next, we multiplied the daily return by 251, which represents all trading days. Based on these calculations, it can be determined that these returns are economically significant and would result in a major impact to the market if these returns remained consistent for a year. The average annualized market return for all industries is a -66.71%. This means that there would be a strong negative economic significance based on these annualized returns for a company that is required to restate. These numbers can be viewed in Table 1.7 – Annualized Market Reaction Data by Industry below.

Table 1.7 – Annualized Market Reaction Data by Industry

Annualized Market Reaction Data by Industry	
Industry	Annualized Market Reaction Data
Basic Materials	-709.8378%
Entertainment	74.2772%
Health Care	-121.3897%
Industrial	33.3085%
Pharmaceuticals	443.7547%
Retail	158.3153%
Services	-200.2505%
Technology	-139.2722%
Utilities	-139.2722%
AVERAGE	-66.7074%

Overall, there is an average negative market reaction across all industries, which is consistent with our expectation. The market reaction variable is observed further as we look at the other variables and their correlation to the resulting market reaction next in hopes of providing more conclusive results.

The last variable that was correlated with market reaction was the number of accounts that were affected due to a company having to restate their financials. As the number of accounts that are required to be restated increase, it was believed that the negative change in market reaction would increase. The companies were divided into groups based on how many accounts were affected over their restatement period and the market reactions were observed. These results can be viewed in Table 1.8 – Market Reaction Based on Number of Accounts Effected. These results held zero correlation and subsequently did not prove true to our assumption. What

can be derived is that there is a negative market reaction on average about 83%⁸ of the time regardless of the number of accounts affected. Also, the higher number of accounts effected did have higher negative market reactions, with some anomalies in the observation. Ultimately, there was no correlation, but it can be concluded that when there are accounts affected, there will likely be a negative market reaction.

Table 1.8 – Market Reaction Based on Number of Accounts Effected

Market Reaction Based on Number of Accounts Affected		
Number of Accounts Affected	Average Change in Stock Price - 3 Day Average	Number of Companies
1 -- 5	-6.3697%	7
6 -- 10	-1.0372%	7
11 -- 15	-4.0882%	6
16 -- 20	-19.0284%	4
21 -- 30	4.9562%	6
30+	-9.0408%	4

e) Relevance of the Empirical Analyses to Literature Review

Reflecting back to the study conducted by Marlene Plumlee and Teri Lombardi Yohn and the resultant causes for restatements are important to compare to the study conducted here. After witnessing the restatements in this study, the reasons provided by companies, and the derived variable results, the findings of our study can be very closely compare to the Plumlee and Yohn study. Within the companies observed in this study, there were no restatements due to intentional misrepresentation, and thus this cause can be ruled out. Also, this cause is very rarely witnessed as was previously noted and not surprising as this sample is comparatively small. The major

⁸ Five out of the 6 segments for number of accounts affected resulted in a negative market reaction as seen in Table 1.8.

causes that can be attributed to our study are due to errors in the corporation's internal controls, problems from complex transactions, or incorrect application of the standard. Within the top 10 accounts affected, there was Revenue, Cost of Goods Sold, Selling, General and Administrative and consequently, Income Tax Expense (and Provision).

After Sarbanes-Oxley was introduced, there were several companies that had trouble with Revenue Recognition and expense accounts that resulted in restatements. In a study published in the CPA Journal in 2008, they had addressed the fact that 55% of companies had modified their process of revenue recognition since Sarbanes-Oxley in order to comply with the standards. (Hermanson 40) Prior to their modification, these restating companies faced issues when applying revenue recognition that included: lacking proper controls over revenue recognition, lacked the staff with adequate accounting knowledge, or ultimately did not even document their internal controls that furthermore had zero oversight by management. (43)

Moreover, the study found more and more companies filing restatements because the controls in place did not guarantee revenue was recognized only when defined criteria are met. This criterion is set in place by the Standards, Management Systems, Business Improvement and Regulatory Approval Information, or SABS. As stated in the CPA Journal, the criterion for timely recognition includes:

- “Persuasive evidence of a sales arrangement exists
- The price is fixed and determinable
- Collectability is reasonably assured
- Delivery has occurred or services have been rendered.”

(Hermanson 45)

The timing of the recognition is the biggest problem as revenue was recorded before all criteria was met, or revenue was delayed to be a part of future statements. They concluded that until adequate controls for revenue recognition are in place, while taking these SABS criteria into consideration, revenue recognition will remain highly problematic and will be a major cause for restatements. Combined with these standards and the FASB revenue recognition project previously described, it is likely revenue recognition problems will be on the decline in the future given the strong framework being developed. The biggest problem of revenue recognition is the timing of the recording and this will be sufficiently addressed between both the project and this SABS standard.

With regards to how companies fixed their recognition problems, it was also reported that the biggest step 50% firms took was creating or modifying their internal controls to prevent future occurrences. In addition, 33% of firms also took an interest in becoming well versed in the high risk accounts and monitored the accounts that were both very complex and not frequently used. These core accounts that were unique to the industries were usually the problem areas, and thus if focused on, could mitigate a high level of future problems. The majority of the remaining companies hired a third party consultant who came in to address the problems, implemented solutions and monitor the changes and training. (42)

Although revenue recognition had long been a problem for companies, there was an increase in the number of restatements due to expense accounts. As observed from our data, about 30% of the top accounts were expense accounts. Of these top restated accounts, one was an income tax expense account, which had been identified by the Government Accountability Office as a “problem account”. Furthermore, in a study conducted by Deloitte, they identified the continuous problems from tax accounts. Tax problems and resulting issues with restatements are

being closely monitored by the SEC in hopes of diluting future problems. Although in their study they witnessed a decline in restatements due to tax problems, it still accounted for about a third of the restatement causes. (Deloitte 2)

Deloitte conducted a study for fiscal year 2009, which can correlate with our study. The top three reasons for problems due to taxes was lack of review (23%), lack of or untrained personnel (22%) and problems from general procedures and processes not being adequately in place (13%). In further terms, the lack of review was either that the company did not focus on reviewing the tax accounts, or did not examine it as closely as they should have. In addition, if they did review it, the people reviewing it were not adequately trained and consequently a problem occurred. Lastly, the company just may not have proper procedures in place and resultantly it is an internal control problem specific to tax. (Deloitte 2)

Tax problems need to be monitored more closely in the future in order to limit these restatements. In the same study conducted by Deloitte, they analyzed what steps companies took to improve and limit their problems due to taxes. The most frequent remediation step conducted was improving the review process, which 93% of companies with prior tax problems did in 2009. They paid more attention to the tax expense and reconciled it more closely to ensure accuracy. In addition, the second biggest step companies (70%) took was to ensuring the personnel were sufficiently trained in the area of tax, whether it be they hire staff with the appropriate training, or provide the existent staff with training. Over a third of companies also took steps into improving the process they had in place for the tax process. However, because they may not have the knowledge necessary to fix all problems in place, 55% of companies either introduced or increased external specialist involvement to get companies a head start in the right direction. (Deloitte 3)

The Deloitte study also identified the specific areas of tax from which these problems arose from. Deferred taxes (27%), accounting for income tax (24%) and valuation allowances (16%) were top three reasons for tax restatements. (5) These top 3 reasons were also 3 of the top 10 restated accounts for our study. This correlation is evidence alone that tax is a major problem for companies, and they must address it as well as identify ways to mitigate the high level of risk for the future. As stipulated by Deloitte, it is not that tax is that complex, but that companies have failed to pay adequate attention to it in the past. In addition, the lack of internal communication of companies has also been a problem with regards to computing tax data. (6) By improving these inadequacies, there will likely be a major drop in the number of restatements due to tax problems.

VI. Conclusion:

Based on our acquired results from restatements in 2009, various conclusions can be drawn. Overall, there is typically a negative impact on net income following a required restatement by a company. This may be due to an overstatement in revenue, either because it was recognized before the criteria were met by the SABS or that the expense accounts were understated from problems with complexity, such as tax accounts. In addition, a firm averages between one quarter to two and a half years that are required to be adjusted. The lower number of periods can be represented by increased awareness or better controls than in the past.

Also, companies are averaging between five and twenty⁹ accounts that are being adjusted for following a restatement. This is a high number of accounts; however, due to the linked nature of many accounts, it is not surprising to see this level of affectedness. Usually when an account

⁹ This does not account for the pharmaceuticals industry as the number is a poor representation of the sample.

is frequently restated, it is accompanied by a high level of materiality. These accounts that are typically restated include revenue and expense accounts, as well as items related to tax. Revenue recognition had become a major problem and has since been addressed by the FASB revenue recognition project; many companies have attempted to modify their procedures. Although this problem has been on the decline, it needs to be monitored better in the future. Inversely, expense accounts have been increasingly problematic due to the nature of increased complexity. Of importance in our study were the tax implications. Due to carelessness of companies and the lack of appropriate training, this problem was extremely prominent in 2009 as witnessed by our data and the study conducted by Deloitte. Companies have taken steps in the right direction by paying more attention when it comes to review and ensuring their staff is appropriately trained.

After analyzing the correlating market reaction, I conclude that on average a company witnesses a negative market reaction following a restatement. The industry is not relevant to whether a company will have a negative market reaction, but more likely than not it will be negative. Regardless of the effect on net income, a company will have a negative market reaction. However, if a company faces a negative effect on net income, it will likely face a negative impact on net income three times higher than a positive effect on net income would. Lastly, there was zero correlation between the number of accounts affected and the accompanying market reaction data. A majority of segments averaged a negative market reaction, with increased materiality as the number of effected accounts increased, but the results produced uncorrelated data. Overall it can be deciphered that on average when a restatement occurs, regardless of the correlating variables; there is likely to be a negative market reaction due to the decreased consumer confidence and trust of the investors. Restatements are on the decline, but given the changes of this decade, there will likely still be a wealth of restatements.

While conducting this research, I became quite familiar with many of the standards in place as well as the updates to the convergence project with FASB and IFRS. It is remarkable how well these regulation boards are creating clear boundaries, but disappointing that many companies are still failing to conform to them. Surprisingly, immaculate quantities of companies are still facing restatements even though they know the high risk areas of their financials. These problems have been the same high risk areas for years, and yet they still fail to monitor or mitigate the risk. I was astounded to discover how closely our results pulled to the results that have been occurring for years. It was discovered that these trends analyzed here will likely continue for years to come, although they may vary in magnitude. Of another surprise was the fact that a majority of the problems were due to carelessness or lack of proper training with regards to internal controls. If companies improve their efforts in these areas, it is likely we will see a decrease in restatements in the future. Until companies adapt their controls and procedures to fit within standards, it is likely we will continue to witness the observed trend of financial restatements for years to come.

VII. Appendix

- 1) The 38 predefined list of observed companies. Due to lack of information, PSS World Medical, Inc., Clariant, Inc. and Micrel, Inc. were removed from further analysis.

Company	Ticker Symbol	Industry	Disclosure Date
AMCOL INTERNATIONAL CORP	ACO	Basic Materials	01/29/09
CENTURY ALUMINUM CO	CENX	Basic Materials	03/02/09
GSE SYSTEMS INC	GSE	Basic Materials	02/17/09
HARVEST NATURAL RESOURCES, INC.	HNR	Basic Materials	03/05/09
YUBET COM INC	UBET	Entertainment	09/08/09
AMSURG CORP	AMSG	Health Care	08/10/09
INTEGRAMED AMERICA INC	INMD	Health Care	11/03/09
SUNLINK HEALTH SYSTEMS INC	SSY	Health Care	08/28/09
USANA HEALTH SCIENCES INC	USNA	Health Care	02/23/09
C&D TECHNOLOGIES INC	CHP	Industrial	04/16/09
LSI INDUSTRIES INC	LYTS	Industrial	05/11/09
TREX CO INC	TREX	Industrial	07/27/09
CLARIANT, INC	CLRT	Pharmaceuticals	03/13/09
NABI BIOPHARMACEUTICALS	NABI	Pharmaceuticals	03/11/09
BENIHANA INC	BNHN	Retail	06/26/09
LANDRYS RESTAURANTS INC	LNK	Retail	11/06/09
BELO CORP	BLC	Services	07/31/09
CHRISTOPHER & BANKS CORP	CBK	Services	02/26/09
CORPORATE EXECUTIVE BOARD CO	CEB	Services	03/13/09
CRA INTERNATIONAL, INC.	CRAI	Services	08/14/09
FreightCar America, Inc.	RAIL	Services	07/28/09
Huron Consulting Group Inc.	HURN	Services	07/31/09
PSS WORLD MEDICAL INC	PSSI	Services	01/28/09
SOUTHWEST AIRLINES CO	LUV	Services	10/15/09
TRACTOR SUPPLY CO /DE/	TSCO	Services	01/22/09
WEBSENSE INC	WBSN	Services	09/15/09
ZALE CORP	ZLC	Services	09/18/09
ACI WORLDWIDE, INC.	ACIW	Technology	02/17/09
CEPHEID	CPHD	Technology	07/30/09
INSIGHT ENTERPRISES INC	NSIT	Technology	02/09/09
ION GEOPHYSICAL CORP	IO	Technology	11/04/09
METHODE ELECTRONICS INC	MEI	Technology	06/29/09
MICREL INC	MCRL	Technology	01/29/09
NETGEAR, INC	NTGR	Technology	07/22/09
PC TEL INC	PCTI	Technology	10/29/09
ULTRA CLEAN HOLDINGS INC	UCTT	Technology	02/05/09
NEW JERSEY RESOURCES CORP	NJR	Utilities	11/23/09
UTEK CORP	INV	Industrial	04/27/09

2) The Methode Electronics, Inc. June 23, 2009 8-K has been reproduced below:

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 23, 2009

METHODE ELECTRONICS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-2816
(Commission File Number)

36-2090085
(IRS Employer
Identification No.)

7401 West Wilson Avenue, Chicago, Illinois 60706
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(708) 867-6777**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 4.02(a) Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

On June 23, 2009, the Audit Committee of Methode Electronics, Inc. (the “Company”), concluded that the Company’s unaudited consolidated financial statements included in the Company’s Quarterly Report on Form 10-Q for the period ended November 1, 2008 should no longer be relied upon because of an error in such financial statements. The error related to unrealized currency exchange losses arising from an inter-company loan between the Company and one of its foreign subsidiaries in conjunction with the acquisition of Hetronic, L.L.C., purchased on September 30, 2008.

The loan amount was \$20,858,304. Due to the U.S. Dollar increasing versus the Euro, from 0.6923 on September 30, 2008 to 0.7850 on November 1, 2008, an unrealized currency loss of \$2,463,140 should have been recorded for the second quarter. The restatement to include this unrecorded currency loss significantly impacts the Company’s previously reported condensed consolidated balance sheet and condensed consolidated statements of income for the three and six months ended November 1, 2008.

The impact of the restatement is discussed in Note 2 of the Company’s Amended Quarterly Report on Form 10-Q/A for the period ended November 1, 2008, also filed today with the Securities and Exchange Commission. In addition, the Company has amended other effected information in the Form 10-Q/A, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, to address the impact of the restatement.

The Company’s management has assessed the effectiveness of the Company’s internal control over financial reporting in light of the restatement and has determined that the restatement is not indicative of a material weakness, but does constitute a significant deficiency. The Company’s management and the Audit Committee have discussed the matters disclosed in this Item 4.02 with Ernst & Young LLP, the Company’s independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

METHODE ELECTRONICS, INC.

Date: June 29, 2009

By: /s/ Douglas A. Koman
Douglas A. Koman
Chief Financial Officer

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3) Methode Electronics, Inc. 10-Q/A revealed the adjusted financial statements for the effected time period. These financial statements are reproduced below with the applicable adjustments highlighted:

METHODE ELECTRONICS, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	As Reported November 1, 2008 (Unaudited)	Adjustment	Restated November 1, 2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 52,806	\$ —	\$ 52,806
Accounts receivable, net	73,599	—	73,599
Inventories:			
Finished products	17,369	—	17,369
Work in process	17,681	—	17,681
Materials	32,993	—	32,993
	<u>68,043</u>	<u>—</u>	<u>68,043</u>
Deferred income taxes	8,485	—	8,485
Prepaid expenses and other current assets	6,082	—	6,082
TOTAL CURRENT ASSETS	<u>209,015</u>	<u>—</u>	<u>209,015</u>
PROPERTY, PLANT AND EQUIPMENT	288,166	—	288,166
Less allowances for depreciation	<u>207,762</u>	<u>—</u>	<u>207,762</u>
	80,404	—	80,404
GOODWILL	68,085	—	68,085
INTANGIBLE ASSETS, net	54,184	—	54,184
OTHER ASSETS	26,144	—	26,144
	<u>148,413</u>	<u>—</u>	<u>148,413</u>
	<u>\$ 437,832</u>	<u>\$ —</u>	<u>\$ 437,832</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 32,922	\$ —	\$ 32,922
Other current liabilities	25,654	—	25,654
TOTAL CURRENT LIABILITIES	<u>58,576</u>	<u>—</u>	<u>58,576</u>
OTHER LIABILITIES	17,211	—	17,211
DEFERRED COMPENSATION	4,561	—	4,561
SHAREHOLDERS' EQUITY			
Common stock, \$0.50 par value, 100,000,000 shares authorized, 38,283,075 and 38,225,379 shares issued as of November 1, 2008 and May 3, 2008, respectively	19,141	—	19,141
Unearned common stock issuances	(4,257)	—	(4,257)
Additional paid-in capital	71,682	—	71,682
Retained earnings	270,826	(2,463)	268,363
Accumulated other comprehensive income	11,472	2,463	13,935

Treasury stock, 1,342,588 and 702,708 shares as of
November 1, 2008 and May 3, 2008, respectively

	(11,380)	—	(11,380)
	<u>357,484</u>	—	<u>357,484</u>
	<u>\$ 437,832</u>	<u>\$ —</u>	<u>\$ 437,832</u>

METHODE ELECTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended		
	As Reported November 1, 2008	Adjustment	Restated November 1, 2008
INCOME			
Net sales	\$ 121,304	\$ —	\$ 121,304
Other	<u>959</u>	—	<u>959</u>
	122,263	—	122,263
COSTS AND EXPENSES			
Cost of products sold	97,815	—	97,815
Restructuring	6,284	—	6,284
Selling and administrative expenses	<u>18,650</u>	—	<u>18,650</u>
	122,749	—	122,749
Income/(loss) from operations	(486)	—	(486)
Interest income, net	469	—	469
Other, net	<u>1,853</u>	<u>(2,463)</u>	<u>(610)</u>
Income before income taxes	1,836	(2,463)	(627)
Income taxes/(benefit)	<u>(865)</u>	—	<u>(865)</u>
NET INCOME	<u>\$ 2,701</u>	<u>\$ (2,463)</u>	<u>\$ 238</u>
Amounts per common share:			
Basic net income	\$ 0.07	\$ (0.06)	\$ 0.01
Diluted net income	\$ 0.07	\$ (0.06)	\$ 0.01
Cash dividends:			
Common stock	\$ 0.07		\$ 0.07
Weighted average number of Common Shares outstanding:			
Basic	37,068		37,068
Diluted	37,551		37,551

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