In reporting pay, firms can err big

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By Todd Wallack
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In its annual report on executive pay last spring, Verenium Corp. of Cambridge told shareholders its top lawyer had earned less than $629,000 in 2008. In fact, he earned nearly twice that amount.

SeaChange International Inc. of Acton understated how much it paid a top officer last year by $200,000.

And a Bedford medical products maker, Hologic Inc., misstated the compensation for several executives by as much as $275,000 each.

These are among the dozens of mistakes publicly traded companies in Massachusetts made in reporting executive compensation to shareholders and federal regulators over the past few years, according to a Globe review of documents filed with the Securities and Exchange Commission.

The errors ranged from $20 to more than half a million dollars. And companies seemed as likely to overstate pay as to underreport it.

There is no evidence of deliberate efforts to deceive investors. But the errors raise a broader, more troubling question: What else is wrong with the reports?

Such reports are crucial to the credibility of US companies that rely on the investment community for financing.

Indeed, several of the most recent scandals to sweep corporate America began with companies, such as Enron and WorldCom, reporting figures that turned out to be incorrect or fictitious.

With so much recent history, business analysts said they were surprised companies were not more careful in their financial reporting.

“It’s beyond embarrassing,” said Howard Schilit, a forensic accountant and author of the book “Financial Shenanigans.” “At a minimum, companies used very sloppy processes.”

The Globe found 55 errors in reports by 34 out of nearly 210 publicly traded companies in Massachusetts.

Some companies made mistakes for multiple executives or years. Nearly half the errors involved $10,000 or more, including nine above $100,000.

Lucian Bebchuk, a Harvard Law School professor who has studied executive compensation, said he was troubled by the error rate, saying it raised serious concerns.

He also said companies should correct errors as soon as they learn about them, since investors rely on the reports.
None of the companies contacted by the Globe disputed the errors. Instead, many blamed typos, arithmetic errors, switched digits, and other blunders.

None of the firms said they planned to amend their SEC filings to correct the mistakes, however.

“‘I’m not sure it really matters,’” said Richard A. Sneider, chief financial officer for Kopin Corp. in Westborough, which mistakenly reported the 2007 and 2008 pay for four executives in a March SEC filing.

For instance, Kopin overstated the pay for John C. Fan, chief executive, by more than $178,000 for one year and $419,000 the next. And it understated the pay for another executive by nearly $186,000 in one year.

But Sneider said the other columns in the pay chart were correct, and that just the totals were wrong, obviating the need for a correction.

The SEC, which regulates disclosures by companies that sell shares to the public, said companies are supposed to fix material errors, but it would not comment on whether these compensation mistakes meet that definition.

“Companies are responsible for complete and accurate disclosure of executive compensation and are subject to the possibility of SEC enforcement actions when that disclosure is inaccurate or incomplete,’” SEC spokesman John Nester said.

Tamar Frankel, a Boston University law professor who specializes in corporate governance and financial issues, said it is often a judgment call on the part of companies when to fix such mistakes, depending on the size and number of mistakes. Companies don’t like to call attention to errors, she added, because that can cause investors to wonder what other information is incorrect.

“You get into a quagmire,’” Frankel said.

The Globe found the errors by tallying the amount of money companies reported paying to their top officers in salary, bonus, and other types of pay in the summary compensation table they file with the SEC each year.

The Globe then compared the sums to the totals companies reported in a separate column in the same chart.

Often, the totals did not match. (The Globe used data from Capital IQ, a financial research firm that maintains an executive compensation database based on SEC filings, to identify the discrepancies and then verified the errors in the filings.)

Verenium, which manufactures enzymes for biofuels and other industrial uses, made some of the largest mistakes identified by the Globe.
In documents filed in April, Verenium mistakenly totaled the individual columns of compensation for its chief legal officer, Gerald M. Haines.

For instance, the firm underreported how much Haines earned in 2008 by $513,014 and by $55,000 the next year.

The company also misstated compensation for two other executives, including overstating the pay for one by about $173,000 and by nearly $203,000 for another. But Verenium said the mistakes did not warrant corrections.

“We don’t consider them significant at all,” said Kelly Lindenboom, a spokeswoman for Verenium.

Mary Ellen Carter, an associate professor for accounting at Boston College, said some mistakes are understandable because compensation packages and reporting requirements are complex.

And since humans are involved, mistakes are bound to happen.

Carter said she would be concerned, however, if a company repeatedly made errors. And she called Verenium’s $513,000 misstatement “a pretty big error.”

Bebchuk said he thought Verenium’s mistake was large enough to be considered material, meaning the company would be legally obligated to correct it.

The errors aren’t unique to Massachusetts corporations.

Three years ago, the Corporate Library, a Portland, Maine, research firm that tracks shareholder issues, uncovered a similar pattern of mistakes when it was compiling a national database on executive pay. Out of 3,136 companies, the Corporate Library found 90 cases in which the pay for CEOs did not add up correctly.

In a separate review, it found companies had made even more mistakes in director pay.

“We couldn’t understand why so many companies had made mistakes,” said Paul Hodgson, a senior research associate, noting that companies typically use computer spreadsheet programs that automatically calculate pay figures.

Companies offered several explanations for the errors uncovered by the Globe.

SeaChange, which makes software to help deliver video on demand, said it made an error in addition.

While it correctly reported individual figures for the salary, bonus, and other pieces of compensation for a former president, Edward Dunbar, it mistakenly reported the total of those columns as $753,873, when it was $200,000 higher.
Dyax Corp., a Cambridge drug maker, said it accidentally switched two digits in the pay totals for Gustav Christensen, its chief executive, inflating the number by $9,000.

Hologic blamed transposed digits, an addition error, and an omitted number in one compensation calculation.

The company said an employee also made a “fat finger” typo that added an extra digit to one component of an executive’s pay: It mistakenly reported the 2007 stock awards for a company founder, Jay A. Stein, as $305,556 instead of $30,556.

“There’s not one systematic error,” said Mark J. Casey, general counsel for Hologic.

New SEC regulations introduced additional opportunities for mistakes. The agency changed the way companies must value stock options and awards, which forced many firms to recalculate previously reported figures.

A Dedham company that operates a chain of party-supply stores, iParty Corp., said it correctly updated one category of compensation, stock awards, but forgot to adjust the totals for three executives to reflect the new calculations.

One of those was for its chief financial officer, David E. Robertson, whom the company mistakenly reported as having made $8,674 less in 2008 than he did.

“It’s simply a clerical error,” Robertson said. “It’s embarrassing,” he acknowledged.