Back to Parish & Company Home Page

April 13, 2001 2:00 pm Eastern Time

Microsoft in cross hairs - CPA takes on Microsoft

by John Grund

PORTLAND, Ore., April 13 The world of accountants and economists only appears to be gray. Under the surface, it has always held its share of colorful visionaries, prophets and eccentrics.

Usually, they are relegated to the fringes, but sometimes the sun shifts - as it did with the stock market dive over the past year - and one of them gets some time in the light.

Portlander Bill Parish, 42, is a certified public accountant and money manager, a classical guitarist and former Peace Corps volunteer, a stickler for principle in even the most obscure corners of accounting practice and also, it appears, equal parts Don Quixote and Energizer Bunny.

Since 1998, Parish has been on a personal crusade to expose what he calls "a massive fraud" at Microsoft Corp., whose stock for some time has been the No. 1 holding of index funds mirroring the S&P 500 and of a large number of pension funds.

For a long time nobody paid any attention to him. But as Microsoft's stock skidded, first because of the antitrust case and, more recently, the general plunge in tech stocks, he began to gain notoriety. First, British and German newspapers published stories, then The New York Times and Bloomberg Markets did articles.

The headline in the German newspaper Bild blared: "Little Bill against Big Bill: Will he topple the richest man of the world?"

Parish's basis thesis - which is laid out in detail on his Web site at www.billparish.com - runs as follows:

Wages not computed as cost

Microsoft for years has issued massive amounts of stock options to employees in lieu of wages - accounting in some years, he says, for as much as 75 percent of total compensation. Because the options cost the company nothing - indeed, they even earn the company tax deductions - there has been no charge against earnings. Because of the savings in wage costs, Microsoft's earnings have appeared stronger than they are.

Parish asserts that if Microsoft had paid wages and taxes the same way as most other corporations, it would have fallen $10 billion into the red in 1999 instead of showing the $7.8 billion in profits that it reported.

Since earnings drive stock performance, investors in Microsoft's stock - including a large number of pension funds - have been grossly misled.

"It's a financial pyramid scheme," Parish says. Because the Microsoft pattern has been followed by many other high-tech companies, he argues, it has destabilized not only the stock market but the U.S. economy.

He even implicates it in The Boeing Co.'s decision to move its headquarters out of Seattle. It was forced, he argues, by the "false inflation" of goods, services and housing costs in the area produced by the stock option wealth in the high-tech sector and the unwillingness of unionized Boeing employees to accept more wages via stock options.

Parish's charges have been dismissed repeatedly as groundless by Microsoft's spokespeople. To the charge that Parish frequently lobs that the company has paid no federal income taxes in recent years because of options, Microsoft counters that its employees pay the full income tax rate on their option gains.

The main barrier to evaluating Parish's theories is that he tends to shift from first gear to fourth gear with no steps in between. He'll write that "Microsoft is incurring massive losses and only by accounting illusions are they able to show a profit" and then dive into arcane and impenetrable accounting-speak to support his case. The jump is too big for most people to follow.

Other firms take heat

He also muddies the waters by going after other companies and other accounting "tricks." More recently, he has issued lengthy reports on Cisco Systems Inc. and Citicorp and how those companies and others have used "pooling method" acquisitions to make their balance sheets and earnings reports more attractive.

Parish basic complaint about the accounting for stock options is not unique. The Wall Street Journal and Forbes magazine, among others, have chewed on the same point, and committees of accountants have recommended changes to public disclosures that companies file. So far, the authorities have been content with listing one measure of the cost of options in a footnote to financial reports.

The Securities and Exchange Commission also planned to eliminate pooling earlier this year, but then postponed the change indefinitely.

Parish does go further than almost anyone else in calling the practices fraudulent.

"People keep telling me to lighten up," he says. "People say you shouldn't use the term 'financial fraud,' but that's what it is."

CPA gets share of criticism

Parish's free-speaking ways have sometimes undermined his credibility. When an early interview was published in Pat Buchanan's Spotlight, he got labeled as a right-winger, and was even called an anti-Semite. Later, when Ralph Nader used some of Parish's research as the basis for a news conference in front of Cisco Systems' headquarters, Parish says he was labeled a leftist. His stance has lost him some customers, he says, but gained him others.

Parish also goes further than other critics in saying Microsoft's practices, by forcing other companies to match them to compete, have put the entire tech sector on shaky ground. Tech companies, in effect, leveraged their earnings on the back of an extended bull market and now will see those earnings collapse that much faster in an extended bear market. This means deep layoffs and personal portfolios spiraling downward, he says.

In other words, everyone profited from a virtuous circle as long as stock prices kept going up, but now everyone will feel the sting of a vicious circle as prices fall.

"Microsoft has destroyed the new economy, and people haven't caught onto it yet," he says.

Only time will tell

History will be the final judge of Parish's take on the millennial stock market. He seems confident that all of his theories will be proved in the next few years.

Plenty of other financial prophets crying "Repent!" in the wilderness have been proved wrong before, but history also lends some credence to Parish's charges. There are plenty of examples from the past when financial engineering forged ahead of real business productivity.

In his book "The Go-Go Years," which is a history of the wildly bullish 1960's,. John Brooks compares the crash at the end of that decade to the crash of 1929: "In each case, shaky financial pyramids, built on a minimum of cash base, had been erected by financiers eager to take maximum advantage of the public's insatiable appetite for common stocks. Before 1929 they had been called investment trusts and holding companies; now they were called conglomerates. ... It is curious to note that ... there was no public disapproval of either so long as people were making money on them."

Parish & Company is an independent fee based investment advisor to individuals, pensions and trusts based in Portland, Oregon. No fees are accepted, either directly or indirectly, from any provider of investment products.

Bill Parish
Parish & Company
10260 SW Greenburg Rd., Suite 400
Portland, OR 97223
Tel: 503-643-6999 Fax: 503-221-3161
email: bill@billparish.com
Back to Parish & Company Home Page