Oregon Business Nov. 2003

Doing the numbers

Like a canary in a mine shaft, Bill Parish warns of financial explosions before they occur.

By John M. Grund

Once upon a time, Bill Parish was a Portland investment manager shouting into the wind that the emperors — the CEOs of some of Wall Street's favorite companies — had no clothes.

Then, of course, CEOs started turning up naked behind every rosebush.

The result has been a surge of interest in Parish's once fringy opinions. His op-ed pieces criticizing corporate accounting practices have appeared on the pages of publications ranging from the *Portland Tribune* to *Barron's*, and he's been quoted in *Smart Money* and even the French financial daily *Les Echos*. Last year he gave a keynote speech at an accounting conference at Kent State University in Ohio, where he got his picture taken sandwiched between the second-in-command at the Securities and Exchange Commission and the former head of the Financial Accounting Standards Board. It was a bit like a fellow who complained about his Chevy Citation sharing the podium with the chairman of GM.

Parish, a middle-aged CPA who formerly practiced at Arthur Andersen, has the research and records to show that he's been on top of four major recent accounting scandals.

First, there was the pitched battle over the "pooling of assets" method of merger accounting. (Unlike the alternative, the purchase method, pooling does not put a large amount of "goodwill" on the books as a cost not backed by hard assets; pooling tends to inflate a company's return on equity and make it look more profitable). Parish, among others, complained that the pooling method understated the costs and overstated the benefits of mergers. Specifically, he went after Cisco Systems and its long trail of pooling-method mergers.

A sympathetic soul at Cisco's PR firm anonymously sent Parish a copy of the PR plan that set out to label him a crackpot. Parish turned around and posted it at his website, www.billparish.com. Cisco's effort to get the SEC to restore the pooling method failed, though Congress later waffled on the issue.

Then Parish went after what he decried as "financial engineering" at Microsoft. "I pressured them to stop speculating on their own stock," Parish claims. "And they did." Only a few months later, the Enron scandal broke — when an employee spotted Enron speculating in its own stock. "Can you imagine if [Microsoft] hadn't fixed that? It would have been a total debacle," says Parish.

Next, he went after Microsoft's use of stock options. He claimed, in a blizzard of documents posted on his website and e-mailed to scores of financial reporters, that the company's lavish distribution of unrestricted stock options as pay (not incentive stock options, which are accounted for differently) was radically watering down the true value of the shares.

Earlier this year, Microsoft terminated its stock option program, and chose instead to offer restricted stock grants that vest over time. It also will begin accounting for the expense of the stock grants. The company says Parish had no effect on the decision, but Parish still claims the credit.

Another of Parish's goals was to see an independent standards board for the accounting profession to replace self-regulation under the American Institute of Certified Public Accountants. "The AICPA has just become a joke in the accounting profession," he says. That latest reform also recently became fact. "That was a major accomplishment, too."

But Parish isn't undefeated — more like four wins and one loss. He came out strongly against the hostile Weyerhaeuser takeover of Willamette Industries, but had little effect on the outcome. He did get a measure of satisfaction, though, when just months after the merger a major article in *Smart Money* attacked Institutional Shareholder Services, the allegedly independent research firm that blessed the deal. It included sharp quotes from Bill Parish.

Has Parish really affected these changes, or has he simply been an early and vocal critic? Even his friends wonder. "I really questioned his logic when he became so outspoken," says longtime colleague Mark Coombe, a certified financial planner in Portland. "So I did some research on my own." Parish's figures, Coombe says, checked out.

Whatever the connection between Parish's public drumbeating and accounting industry housecleaning, Parish definitely deserves credit for speaking up when few would, says Washington County financial writer Ed Chang, who adds that Parish's advice saved Chang's own portfolio. "Back in '98-'99, there wasn't really anyone raising noise about reform, but Bill was. He has unique insights, and sometimes it's years before the same thing shows up in *The Wall Street Journal.*"

Parish hates being called a gadfly. "People tend to call other people gadflies to try to discredit them," he says. "I'm an independent financial adviser trying to do good work." Still, being in the public eye certainly has helped his business. His count of investment clients is up 50% in two years to over 60, and he now has more than $15 million under management. He took his clients' portfolios to 100% Treasury bills, TIPS and money market funds in 2001 and 2002 and says no client lost a dime. As of Aug. 1, he added stocks in helpings from 2.5% to 12.5%, depending on the situation. "We have a much better atmosphere for investment now," he says, in part because of the accounting reforms he's championed.

As much time as he spends crunching the numbers, Parish doesn't only tilt at financial windmills. He takes time out to play classical guitar, and his resume includes a stint with the Peace Corps in Paraguay. "He was a free spirit inside a CPA," says Coombe. "Now he's just a free spirit. It fits him better." OBM

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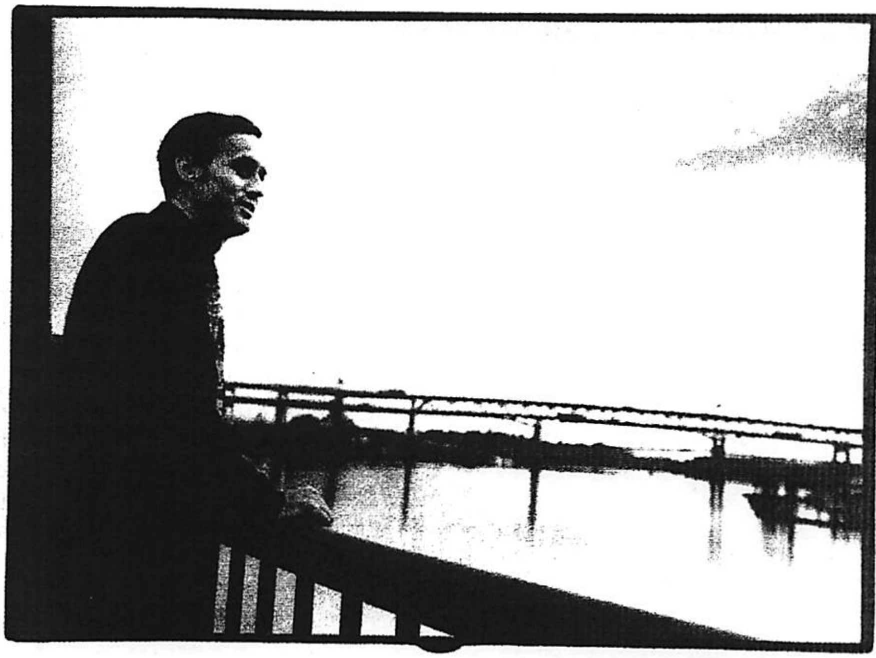

VICKI GRAYLAND

Bill Parish
Parish & Company