

Enron-N.Y. Times Co. Deal Highlights Media's Dilemma

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When Enron collapsed amid spectacular scandal, the New York Times repeatedly assailed the company in editorials for its tangled finances.

Five years ago, it turns out, the New York Times Co. struck a "newsprint swap agreement" -- a financial deal in which no physical assets changed hands -- with the very same Houston energy company.

The Times-Enron deal was disclosed in the fine print of the newspaper company's Securities and Exchange Commission filings but not in editorials that slammed Enron for "accounting shenanigans" and other financial misbehavior.

The Times is hardly alone. Many of the media companies that have been reporting on -- and often criticizing -- corporate accounting and the aggressive use of stock options engage in the same practices themselves, according to federal records.

The Washington Post, for example, said in an April editorial that "the current rules -- which allow companies to grant executives and other employees millions of dollars in stock options without recording a dime of expenses -- make a mockery of corporate accounts."

But The Post Co. has been doing the same thing, boosting its reported income by \$3.6 million last year by not counting stock options as a cost of doing business. The company announced Monday that it will begin listing stock options to executives as expenses.

In a newsprint swap, described by the Times Co. as a "cash flow hedge," a publisher and a trading agent such as Enron lock in a fixed price for newsprint over several years. If newsprint prices go higher, the publisher gets a rebate from its trading partner; if prices drop, the publisher pays a rebate. The idea is to help even out the newspaper's costs over time.

"It might not have hurt to mention the relationship more -- had our journalists even been conscious of it -- but it's inconceivable that anyone will think our journalism was influenced by such a development," said Times spokesman Toby Usnik. He noted that the Enron relationship was mentioned in a news story last December.

"From an editorial perspective, we also have a wall between the editorial and business departments of the company. In fact, we have taken editorial positions in the past that conflict with decisions our business side made."

The 1998 arrangement with Enron was to take effect this year and last until 2008, but the newspaper canceled the deal in January because of Enron's bankruptcy, Usnik said, adding that the effect on earnings was "immaterial."

The stock options issue has sparked a heated battle on Capitol Hill, where big business has been lobbying against proposals that would force companies to count stock options as a business expense. And most media companies behave like other large corporations when it

comes to compensating their executives, even if the method sometimes conflicts with their editorial stands.

The Chicago Tribune said in a March editorial: "Put stock options on the books. The use of stock options as part of compensation packages has exploded, partly because of the 1993 rule that limited tax deductibility of executive salaries once they exceeded \$1 million."

But the Tribune Co. did not count as expenses substantial stock options to its top executives, including Chairman and CEO John Madigan, who received \$5.3 million worth of options last year. Madigan exercised \$1.8 million worth of options in Tribune shares. Company spokesman Gary Weitman defended the use of stock options but acknowledged that "there are good points on both sides of the debate."

Donald Graham, The Post Co.'s chairman and chief executive, said the company's board decided several months ago to begin counting stock options because "we thought this was the most accurate way of giving financial information to our shareholders." Five top executives, but not Graham, have accumulated stock options, including those worth \$666,000 for Chief Financial Officer John Morse Jr.

"As everyone knows," Graham said, "the editorial page writes what it thinks is good policy, and if it varies with newspaper policy or corporate policy, that's fine."

The Times noted in a March editorial that its parent firm awards options to top executives, but it said the practice has "been abused by some companies" since "the boom years of the late 1990's." Times Co. stock options that were not counted as expenses included 150,000 for Chairman Arthur Sulzberger Jr., which were worth \$1.96 million when granted. Times Co. President Russ Lewis told reporters that the paper has made no decision on changing its accounting.

AOL Time Warner, parent company of CNN, granted 4 million options apiece last year to board Chairman Steve Case and then-CEO Gerald Levin, and 3.5 million to current CEO Richard Parsons. A spokeswoman noted that Case could not cash in half the options unless the company's stock price rose significantly.

The parent companies of the major networks -- General Electric (NBC), Disney (ABC) and Viacom (CBS) -- also do not count stock options as a corporate expense. This method enabled Viacom, for example, to boost its reported income by \$118 million last year.

The same approach is followed by Gannett Co., publisher of USA Today, where CEO Douglas McCorkindale exercised options worth \$7.7 million last year. McCorkindale this week defended the company's refusal to count stock options as a regular expense but said that "if the world changes and we have to do it, that is fine with us."

One Knight Ridder paper, the Detroit Free Press, said in a February editorial that "stock options seem to inspire accounting games that help boost the stock price ever higher as top executives cash out for their own benefit."

But Knight Ridder, which does not count stock options as a business expense, awarded CEO Tony Ridder 150,000 options last year, valued at \$10.6 million.

At Dow Jones, publisher of the Wall Street Journal, the stock options not counted in the cost of doing business included 83,700 for CEO Peter Kann, worth an estimated \$7.9 million over the next decade at a 10 percent rate of appreciation. But the practice is consistent with the Journal editorial page, which said last month that despite some exceptions, "options have by and large helped to align CEO incentives with shareholder interests."

A similar pattern emerges on the issue of whether corporations should pay auditors -- the firms responsible for passing judgment on their books and detecting any irregularities -- additional fees for non-auditing services.

Firms such as Arthur Andersen, which was convicted of document-shredding at Enron, have been widely criticized in the media for charging their clients for both kinds of services, thus reducing the incentive to blow the whistle on improper bookkeeping.

A Washington Post editorial last month supported as a "sensible proposal" a bill, passed by the Senate this week, that "would restrict accounting firms' ability to provide consulting services to clients whose books they audit." The Post Co. paid its auditor, PricewaterhouseCoopers, \$626,000 in consulting fees last year, in addition to \$880,000 in audit fees. Post Controller Wally Cooney said the consulting fees are also audit-related.

Viacom paid PricewaterhouseCoopers \$3.8 million for audits and \$5.4 million in consulting fees. Disney paid PricewaterhouseCoopers \$8.7 million for audit work and \$36 million for other services. (PricewaterhouseCoopers has agreed to pay \$5 million to settle SEC allegations that it failed to remain independent from companies it audits.)

In similar fashion, the New York Times Co. spent \$1.2 million last year on audit work by Deloitte & Touche and \$2.2 million on non-audit services. And General Electric paid KPMG \$23.5 million for audits and \$3.7 million for other work.