Tell the Good News. Then Cash In.

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The profits were an illusion. The multimillion-dollar rewards for executives were real.

Over the last few years, executives at some companies released inaccurate earnings statements and, before correcting them, sold large amounts of stock at inflated prices. At others, executives insisted for months that the recent recession would not much affect their businesses. By the time they acknowledged their error, some had sold millions of shares at prices that were just a memory.

It happened at major technology companies like Oracle and Sun Microsystems (news/quote). It happened at Guess and at Xerox (news/quote), at Dollar General (news/quote), a discount retailer, and at Providian Financial (news/quote), a credit card company.

The discovery of similar practices at Enron (news/quote), Global Crossing and other bankrupt companies in recent months has caused outrage everywhere from Internet chat rooms to Congressional hearing rooms.

But the pattern — executives reaping rewards from their own mistakes, while shareholders suffer — is far more common than many people realize. And an analysis of company filings, which were provided by Thomson Financial, a research firm, shows that it is hardly limited to failed companies.

Rather, the practice appears to have gone hand in hand with the general decline in accounting standards among American companies as they strove in recent years to present their financial results in the best possible light. The recent recession and the fallout from Enron's collapse have forced many to restate profits or to make more conservative forecasts, but the reckoning has often occurred after company officials walked away with millions of dollars.

In fact, stock option grants have become so large over the last decade that executives have become wealthy by selling just a fraction of their holdings during a stock-price run-up that turns out to be fleeting.

"Management interests in too many cases have become misaligned with investor interests," said Alan Beller, the director of the corporation finance division at the Securities and Exchange Commission.

In 1998 and 1999, Paul A. Allaire, then the chief executive of Xerox, made about $16 million selling company shares that were trading at more than $50, according to Thomson Financial. Last week, Xerox agreed to restate its earnings back to 1997 and to pay a $10 million fine for inaccurate accounting. The stock closed on Friday at $10.52.

At Vitesse Semiconductor (news/quote), executives including Louis Tomasetta, the chief executive, sold $53 million of stock in the first two months of last year, more than they had

in all of 2000. Before the quarter had ended, the company cut its earnings projection by more than half, and the shares began a descent from $72 to their current price of $8.94.

Around the same time, Lawrence J. Ellison, Oracle's chief executive, mocked Microsoft (news/quote) for lowering its earnings forecast, saying its products, not the economy, were the cause. A month later, with Oracle's share price steady, Mr. Ellison made his first sale of Oracle stock in almost five years, for a gain of almost $900 million. Five weeks after that, he acknowledged that Oracle's profit would miss its estimate, and the stock dropped 21 percent in one day.

Little, if any, of such behavior by executives was illegal. Regulators say executives probably broke the law in only a few cases, mostly at little-known companies, when they sold shares while evidence suggested that they knew their stock would soon fall or that they deliberately reported inaccurate information.

But because insider-trading cases are difficult to prosecute, some investors and regulators say that either the government should enact stricter regulations or directors should change the way they design pay packages.

"There should be some kind of redress," said Sarah Teslik, executive director of the Council of Institutional Investors. "Otherwise, mismanagement pays."

In a speech on Thursday, Harvey L. Pitt, the chairman of the S.E.C., said boards and the nation's stock exchanges should clamp down on the awarding of large stock option grants to senior executives. Without laying out the details, Mr. Pitt said executives should be able to exercise options only after their companies' results have proved to be sustained.

That, he said, "would help abolish perverse incentives to manage earnings, distort accounting or emphasize short-term stock performance."

Still, few executives are expected to be required to forfeit gains from stock sales, because insider-trading cases are so hard to bring.

Executives who release earnings reports that later prove wrong are most likely to attract the S.E.C.'s attention, Mr. Beller said, declining to comment on individual cases.

Xerox offers a recent example of the phenomenon. From 1997 to 2000, the company exaggerated some profits by prematurely counting revenue from leasing copiers, according to the S.E.C. The move allowed Xerox to meet its earnings projections and gloss over the decline of its business, analysts say. An assistant treasurer at the company, James Bingham, had questioned its accounting standards, but Xerox fired him in 2000, calling him disgruntled.

Last week, the company agreed to pay the fine, by far a record for a financial reporting case, stemming from some of the same accounting practices Mr. Bingham had faulted.

For much of the period, Mr. Allaire was Xerox's chief executive, and he was chairman the entire time. Barry D. Romeril was its chief financial officer from 1999 until last year.

Both seem to have benefited from Wall Street's delay in understanding Xerox's problems. In addition to the $16.5 million that Mr. Allaire pocketed by exercising stock options when Xerox shares were trading at $54 or more, Mr. Romeril sold $1.2 million worth of shares, according to Thomson Financial.

Christa Carone, a spokeswoman for Xerox, said it would not be appropriate to comment on the executives' sales until the company had announced the details of its restatement. The change, she added, would move profits from one period to another but not alter the company's cumulative earnings.

IN other S.E.C. cases, executives have often kept much of the profit they made before their companies restated earnings. This year, David A. Thatcher, the former president of Critical Path Inc. (news/quote), an e-mail provider based in San Francisco, pleaded guilty to conspiracy to commit securities fraud and agreed to pay a $110,000 fine.

He did not have to return any of the $8.6 million he made selling Critical Path stock in 2000 because he made his final stock sale in August, the month before evidence suggested that he committed fraud, an S.E.C. official said.

In October and November of 2000, David C. Hayden, the company's chairman, sold 140,000 Critical Path shares. For the year as a whole, he sold 540,000 shares for a gain of $25 million, according to Thomson Financial.

The stock closed at $2.35 on Friday, down from as much as $85 during the executives' sales.

Spokesmen for Mr. Hayden said he was not to blame, because he was unaware of the problems. "David sold in an environment where he had no knowledge about what was going on from a day-to-day operational standpoint," said Shane Dolgin, a spokesman for Critical Path.

Other executives misled Mr. Hayden about the business, said Michael Zukerman, the company's general counsel. "He was a victim as much as any other shareholder," Mr. Zukerman said, noting that Mr. Hayden still owns many Critical Path shares.

Some corporate governance experts say executives should return profits that are partly a result of mismanagement that happened on their watch. "Even if they were unaware, they should take a hit," said Nell Minow, the editor of the Corporate Library, a Web site based in Washington. "The buck stops there. That's their job."

When executives fail to live up to their predictions, the cases are less clear-cut than those in which companies rewrite their financial history, corporate governance experts say. Even so, misplaced optimism can be troubling, they add, particularly when that optimism leads directly to a large executive payday.

In the boom years of the late 1990's, Providian Financial aggressively marketed MasterCard and Visa cards to people with bad credit records or none at all. Providian's executives said their business model worked because they knew how to evaluate customers.

The first cracks in the plan appeared in 2000. That summer, Providian agreed to reimburse customers $300 million after government regulators said it had misled people about how much they owed in interest and annual fees. By late last year, Providian acknowledged that many of its customers could not make their payments in a slow economy.

Its forecasts of profit turned into a $481 million loss in the last three months of the year, and the stock has fallen from more than $60 in 2000 to less than $8 now.

But the two men who devised Providian's failed strategy appear to have done well. David R. Alvarez, who oversaw the credit card division, made $15.6 million by selling Providian stock from September 2000 to September 2001. Shailesh J. Mehta, the chief executive, made $8.5 million selling stock during that time. Both sold many more shares during the period than they had sold the previous 12 months.

Last month, the company settled one shareholder suit filed against it, and an insurance policy paid the entire $38 million award. The executives declined to comment.

Mistaken bullishness may also have increased the stock gains for executives at two of the nation's largest technology companies. At the end of 2000, with the economy softening and many managers cutting their capital-spending budgets, technology companies began to predict that they would struggle in the months ahead. Hewlett-Packard (news/quote), Intel (news/quote), Microsoft and Motorola (news/quote) all warned of trouble in November and December.

TWO companies, however, remained conspicuously optimistic.

At Oracle, Mr. Ellison and Jeffrey O. Henley, the chief financial officer, said struggling companies had themselves to blame. "We're in the right market at the right time," Mr. Henley said on Dec. 14. "Microsoft is in yesterday's technology."

At Sun Microsystems, meanwhile, executives acknowledged that the economy was weakening but said that the downturn might actually help their business, as companies shifted their spending.

"There are companies out there that said they have no idea how things are going to go in the next few months. We're not saying that," Michael Lehman, Sun's chief financial officer, told analysts in January 2001.

Less than a week later, with Sun's stock holding steady around $32, Edward J. Zander, Sun's president, sold shares worth more than $8 million. Other Sun executives divested part of their stakes, too.

At Oracle, Mr. Henley made $31 million selling stock for $32.31 a share in January, and Mr. Ellison, among the country's richest people, made almost $900 million, according to Thomson Financial.

By March, both companies started saying that the soft economy would, indeed, hurt their profits. Shares of both ended the month at around $15. Oracle executives face a shareholder lawsuit accusing them of making misleading statements early in 2001.

Jennifer Glass, an Oracle spokeswoman, said the suit was without merit and called the executives' stock sales a "a private, personal matter." Diane Carlini, a Sun spokeswoman, said the executives there sold their shares only during times when they had the same information as other investors.

To some investors and outsiders, however, the notion that executives profited from their own mistakes is deeply unfair. The contrast seems particularly egregious, they say, when executives make large sales, relative to their recent pattern, shortly after they have made confident predictions, as happened at Oracle and Vitesse.

Vitesse declined to comment.

"If executives are going to sell, they ought to do it when there is no question in anyone's mind about the company," said Joseph L. Badaracco, a professor of management at Harvard Business School, speaking generally about the practice. "And they ought to do it on a regular, pre-announced basis."

Besides undermining investor faith in the markets, management experts said, executives risk their own reputations when they seem to emerge from bad times better than their employees and investors.

"Any evidence that you're putting your personal gain ahead of your organization's welfare is one of the most discrediting things you can do in leadership," said Michael Useem, a management professor at the Wharton School of the University of Pennsylvania. "It becomes a litmus test for any followers, about whether they want to go with the man or woman at the top."