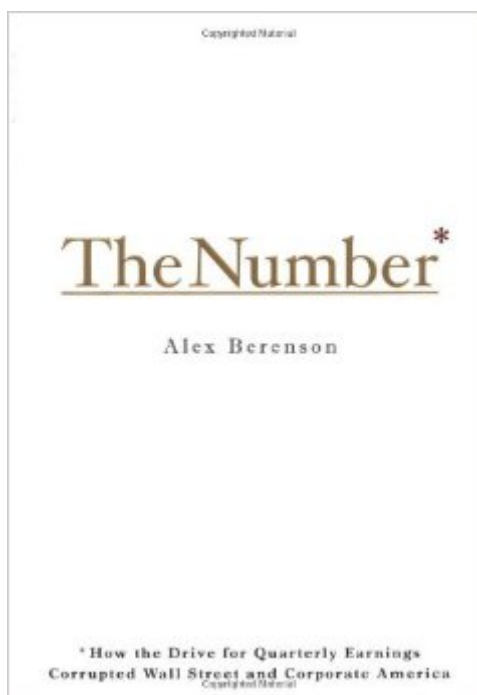


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# The Number: How The Drive For Quarterly Earnings Corrupted Wall Street And Corporate America



## Synopsis

In this commanding big-picture analysis of what went wrong in corporate America, Alex Berenson, a top financial investigative reporter for The New York Times, examines the common thread connecting Enron, Worldcom, Halliburton, Computer Associates, Tyco, and other recent corporate scandals: the cult of the number. Every three months, 14,000 publicly traded companies report sales and profits to their shareholders. Nothing is more important in these quarterly announcements than earnings per share, the lodestar that investors use and these days, that's most of us use to judge the health of corporate America. Earnings per share is the number for which all other numbers are sacrificed. It is the distilled truth of a company's health. Too bad it's often a lie. The Number provides a comprehensive overview of how Wall Street and corporate America lost their way during the great bull market that began in 1982. With fresh insight, wit, and a broad historical perspective, Berenson puts the accounting fraud of the past three years in context, describing how decades of lax standards and shady practices contributed to our current economic troubles. As the bull market turned into a bubble, Wall Street became utterly focused on the number, companies' quarterly earnings. Along the way, the market lost track of what companies are really supposed to do—build profitable businesses with sustainable futures. With their pay soaring, and increasingly tied to their companies' shares, executives were more than happy to give Wall Street the predictable earnings reports it wanted, whatever the reality of their businesses. Accountants, analysts, money managers, and individual investors played along, while the Securities and Exchange Commission found itself overwhelmed and underequipped to cope with the earnings game. The Number offers a unified vision of how today's accounting scandals reflect a broader system failure. As long as investors remain too focused on the number, companies will find ways to manipulate it. Alex Berenson gives anyone who has ever invested in or worked for a public company the tools necessary to see beyond the cult of the number, understand accounting and its limits, and recognize patterns that can lead to fraud. After two decades of stock market hype, The Number offers a welcome dose of truth about the way Wall Street and corporate America really work.

## Book Information

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## Customer Reviews

In the last few months I have read four accounts of the tech bubble. Glutton for punishment, aren't I. I've just got through Alex Berenson's "The Number". I was sent a free copy by the publisher. Alex Berenson himself emailed me to arrange this. So first up, in the spirit of full and fair disclosure, I disclose that I was given this book to review. I feel the need to say that especially in this case because I thought this was rather a good book. By some margin the best of the bunch, actually. Where Roger Lowenstein's "Origins of the Crash" had the air of being something of an aggregation of newspaper clippings, and Frank Partnoy's "Infectious Greed" was less focussed, less penetrating, and in no real sense dispassionate, Mr. Berenson clearly sets out his stall with an interesting (and relevant) history of the regulation of corporate governance and reporting since the 1920s, and an analysis of the issues associated with accounting of any sort. In two short but clear appendices, Berenson explains in lay terms the difference between (and pros and cons of) accrual and sale accounting, and then balance sheets as opposed to income statements. These are fundamentals that one needs to understand what was going on, and not all of the authors who have written on the subject necessarily have a grasp of them. Where as other authors have targeted (with varying degrees of persuasiveness) bodies such as ISDA, the SEC and the credit rating agencies as the main culprit, Berenson's focus stays very much with the auditing accountants and the corporate executives.

I wrote this review in late 2007 for a class: Greed. Unparalleled greed. One might assume from the title of his book that Alex Berenson wrote a mathematical treatise. He did not. The Number is a study of how independent, rational investors can and do throw their experience to the wind in a desperate money-grab, couched in business suits and financial statements, but unremoved from a freewheeling gold rush. Berenson writes in a comfortable, easy style refined through editorial

experience as an author for [...], a Wall Street financial publication, but he is not measured or sanguine here. In this book, published shortly after the implosive demise of Enron, WorldCom, and hundreds of smaller companies that would not survive the market bust of 2000, Berenson's prose has the cynical, bitter flavor of a man who just cannot believe how far the mighty have fallen. The Number has eleven chapters and crescendos to a peak with a recounting of the end of the bull market of the 1990s. The first four chapters cover the history of the stock market; the crash of 1929, the evolution of investment theory, the rock-and-hard-place alignment of accountants, and the creation of the Securities and Exchange Commission. In part two, Berenson explores 1987's Black Monday, and the conception of a new metric of company performance: earnings per share, the number that entitles this book and that would lead indirectly to financial meltdown in 2000. Short sellers, those that bet that a stock will fall based on flaws in public filings, make an appearance in the later chapters. It's charitable that Berenson gives them the limelight here, because they would be ignored completely from 1995 to 2000.

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