|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  | | --- | |  |  |  |  |  |  | | --- | --- | --- | --- | | John Wendt  teaches Sports and Entertainment Law and Business Law and is the MBA Director for Sports and Entertainment Management at the University of St. Thomas. A national and international arbitrator he also sits on the International Court of Arbitration for Sport in Lausanne, Switzerland.     |  | | --- | | **Read other reviews:**  [Internet Movie Database](http://www.us.imdb.com/title/tt0063462/)  [All Movie Guide](http://www.allmovie.com/cg/avg.dll?p=avg&sql=1:39399)  [Readers' comments](http://docs.google.com/user_feedback.htm) |         "Why should they find out? It's only two thousand dollars, Bloom, do me a favor, move a few decimal points around. You can do it. You're an accountant. The word 'count' is part of your title." | |  | | --- | | ***The Producers* - Corporate Scandals and Creative Accounting**  by John T. Wendt  There is a fine line between comedy and tragedy. And nowhere can we see this fine line than in the corporate scandals and "creative accounting" that have been in the news, from the recent Tyco mistrial to WorldCom to all the way back to the Enron debacle that is still with us today.  The Tyco trial certainly had its moments. These range from the allegations that a juror gave an "OK" sign to the defense to the videotapes of Dennis Kozlowski's excesses at a $2 Million party complete with male and female models running about dressed as ancient Romans and liquor flowing from the ice sculpted private parts of Michelangelo's David. It was definitely in bad taste and like something created by Mel Brooks' - something like Brooks' *The Producers.*  The recent Broadway musical is based on Brooks' 1968 movie of the same name and co-stars Matthew Broderick and Nathan Lane. It is the story of Max Bialystock (Zero Mostel in the movie, Lane on Broadway) who once ruled Broadway with a string of hits but now who has fallen on hard times. When his accountant Leo Bloom (Gene Wilder in the movie, Broderick on Broadway) arrives to audit his books, Max sees the road coming to an end. But Leo discovers a loophole - a little academic accounting theory. Hypothetically speaking, a producer could make more money off a flop than he ever could off a hit, but only if it was a flop. If the pair can mount a show so bad that it closes on opening night, they can pay off the initial costs and run off with the remaining funds. They find a musical called "Springtime for Hitler" which is "guaranteed to offend everyone" and hence guaranteed to be a flop. But, to their amazement and eventual ruin, the show is a surprise hit!  Bloom: This is hardly a time for levity. I've discovered a serious error here in the accounts of your last play.  Bialystock: Where? What?  Bloom: According to the backer's list you raised $60,000. But the show you produced only cost fifty-eight thousand. There's two thousand dollars unaccounted for.  Bialystock: I went to a Turkish bath, who cares? The show was a flop. What difference does it make?  Bloom: It makes a great deal of difference. That's fraud. If they found out, you could go to prison.  Bialystock: Why should they find out? It's only two thousand dollars, Bloom, do me a favor, move a few decimal points around. You can do it. You're an accountant. The word 'count' is part of your title.  Bloom: But that's cheating!  Bialystock: It's not cheating... It's charity. Bloom, look at me... look at me! I'm drowning. Other men sail through life. Bialystock has struck a reef. Bloom, I'm going under. I am being sunk by a society that demands success, when all I can offer is you. Don't send me to jail. Help! Help!  Bloom: Oh dear, oh dear, oh dear, oh dear.  Bialystock: Help!  Bloom: All right. I'll do it. I'll do it.  Bialystock: Thank you, Bloom. I knew I could con you.  Bloom: Oh, it's all right... wha?  Bialystock: Nothing. Nothing. Do it. Do it.  Bloom: Now let's see, two thousand dollars. That isn't much. I'm sure I can hide it somewhere. After all, the department of internal revenue isn't interested in a show that flopped.  Bialystock: Yes. Right. Good thinking. You figure it out. I'm tired. I'm gonna take a little nap. Wake me if there's a fire.  Bloom: Now let' see, if we add these figures, we get...  Bloom: Heh, heh, heh, amazing. It's absolutely amazing. But under the right circumstances, a producer could make more money with a flop than he could with a hit.  Bloom: Yes. Yes. It's quite possible. If he were certain the show would fail, a man could make a fortune.  Bialystock: Yes???  Bloom: Yes, what?  Bialystock: What you were saying. Keep talking.  Bloom: What was I saying?  Bialystock: You were saying that under the right circumstances, a producer could make more money with a flop than he could with a hit.  Bloom: Yes, it's quite possible.  Bialystock: You keep saying that, but you don't tell me how. How could a producer make more money with a flop than with a hit?  Bloom: It's simply a matter of creative accounting. Let us assume, just for the moment, that you are a dishonest man.  Bialystock: Assume away!  Bloom: Well, it's very easy. You simply raise more money than you really need.  Bialystock: What do you mean?  Bloom: You've done it yourself, only you did it on a very small scale.  Bialystock: What did I do?  Bloom: You raised two thousand more than you needed to produce your last play.  Bialystock: So what? What did it get me? I'm wearing a cardboard belt.  Bloom: Ahhhhhh! But that's where you made your error. You didn't go all the way. You see, if you were really a bold criminal, you could have raised a million.  Bialystock: But the play only cost $60,000 to produce.  Bloom: Exactly. And how long did it run?  Bialystock: One night.  Bloom: See? You could have raised a million dollars, put on a sixty thousand dollar flop and kept the rest.  Bialystock: But what if the play was a hit?  Bloom: Oh, you'd go to jail. If the play were a hit, you'd have to pay off the backers, and with so many backers there could never be enough profits to go around, get it?  Bialystock: Aha, aha, aha, aha, aha, aha!! So, in order for the scheme to work, we'd have to find a sure fire flop.  Bloom: What scheme?  Bialystock: What scheme? Your scheme, you bloody little genius.  Bloom: Oh, no. No. No. I meant no scheme. I merely posed a little, academic accounting theory. It's just a thought.  Bialystock: Bloom, worlds are turned on such thoughts!  Bialystock: Don't you see, Bloom. Darling, Bloom, glorious Bloom, it's so simple. Step one: We find the worst play in the world - a sure flop. Step two: I raise a million dollars - there's a lot of little old ladies in this world. Step three: You go back to work on the books. Phoney lists of backers - one for the government, one for us. You can do it, Bloom, you're a wizard. Step four: We open on Broadway and before you can say 'step five' we close on Broadway. Step six: We take our million dollars and fly to Rio de Janiero.  Bloom: But if we're caught, we'll go to prison.  Bialystock: You think you're not in prison now? Living in a grey little room. Going to a grey little job. Leading a grey little life.  Bloom: You're right. You're absolutely right. I'm a nothing. I spend my life counting other people's money - people I'm smarter than, better than. Where's my share? Where's Leo Bloom's share? I want, I want, I want, I want everything I've ever seen in the movies!  Bloom: Hey, we're going up.  Bialystock: You bet your boots, Leo. It's Bialystock and Bloom -- on the rise. Upward and onward. Say, you'll join me. Nothing can stop us.  Bloom: I'll do it! By God, I'll do it!  Bialystock: This is where we belong, Leo. On top of the world. Top of the world!  Bloom: Max, as I was saying, maybe we should go easy on the spending. I mean these offices and everything.  Bialystock: Why? Take it when you can get it. Flaunt it, baby, flaunt it!  Bloom: But if something should... God forbid... go wrong, at least we could give them some of their money back. It would look better in court.  As with all the recent corporate scandals there is a lot of money, flaunting, creative accounting and most of the time investors don't get their money back. We are all familiar with the disastrous collapse of Enron, mostly tragedy - part comedy - all accounting and law. Former CEO Kenneth Lay, in an August 20, 2001 interview with Business Week said, "There are no accounting issues, no trading issues, no reserve issues, no previously unknown problem issues. The company is probably in the strongest and best shape that it has ever been in. There are no surprises. We did file our 10-Q (with the Securities & Exchange Commission) a few days ago (Aug. 14). And, if there were any serious problems, they would be in there. If there's anything material and we're not reporting it, we'd be breaking the law. We don't break the law."  In his Aug. 14, 2001 Lay stated in E-mail to Enron employees, "I have never felt better about the prospects for the company... Our performance has never been stronger; our business model has never been more robust; our growth has never been more certain." And in an Enron press release on October 16, 2001 "Our 26 percent increase in [profits] shows the very strong results of our core wholesale and retail energy businesses and our natural gas pipelines." Three weeks later, Enron admitted that it had overstated earnings by $586 million since 1997.  Former Enron CEO Jeff Skilling talked about Enron's management with Larry King, "The entire management and board of Enron has been labeled everything from hucksters to criminals with a complete disregard for the facts and evidence assembled. These untruths shatter lives and do nothing to the public understanding of what happened at Enron." And in Business Week Skilling stated, "We're on the side of angels." And finally he was quoted in the New York Times as "We're all trying to figure out what happened…This was a tragedy. I had no idea the company was in anything but excellent shape."  In hearings before the United States Senate Skilling was repeatedly criticized by Sen. Barbara Boxer, who held up a placard with the joke that Skilling has made during the energy crisis in California, "You know what the difference is between the state of California and the Titanic? At least when the Titanic went down, the lights were on." Boxer told Skilling, "That comment does not sit well with the people of California… And clearly, the Titanic was not California. It turned out to be your company."  In another corporate scandal former WorldCom CFO Scott Sullivan initially talked about his work at WorldCom, "Every time there is another move, another merger, I ask myself, 'How can you top this?' and every time, there has been something new to come along to offer that challenge that makes this life so interesting." When the scandal was first reported Sullivan acknowledged that, "This whole financial story has gotten a little out of hand." A short time later WorldCom disclosed nearly $4 billion in accounting irregularities - a little out of hand.  It is easy to reduce these corporate problems to comedy and tragedy; the bottom line is the responsibilities of corporate governors. And we get that from Dennis Kozlowski. In May 2002, just before his indictment that would end his tenure at Tyco Kozlowski gave the commencement address to the graduates of St. Anselm's College in Manchester, N.H. Kozlowski told the graduates, "As you go forward in life, you will become leaders of families, communities and even companies. You will be confronted with questions every day that test your morals. The questions will get tougher and the consequences will become more severe. Think carefully, and for your sake, do the right thing, not the easy thing."  These are just a few examples of "the creative accounting" of Leo Bloom in *The Producers*. Who knew that Mel Brooks was such a soothsayer? Who knew that a 1968 movie could come back to be the hit of Broadway!  Posted April, 22, 2004 |   **Would you like to comment on this article? Please submit your comments** [**here.**](http://docs.google.com/submit-comments.htm) |  |  | | --- | | [Top of page](#gjdgxs) |  |  | | --- | | [Home](http://docs.google.com/index.html) | [Silver Screen](http://docs.google.com/silver_screen.htm) | [Small Screen](http://docs.google.com/smallscreen/small_screen.htm) | [News & Views](http://docs.google.com/newsnviews.htm) | | |