2/2005-Revised 1/2012

Sunbeam Corporation

Sunbeam is leading designer, manufacturer, and marketer of branded consumer products. The company's primary business is the manufacture, marketing, and distribution of durable household consumer products through mass market and other distributors in the United States.

Prior to 1995, Sunbeam experienced 11 quarters of steady, consistent earnings growth. However from the second quarter of 1995, the firm stumbled badly as earnings fell 61%. Management attributed Sunbeam's lackluster performance to a poor retail environment with sluggish consumer demand, a mild winter which reduced demand for Sunbeam's "cough and cold" products (vaporizers, blankets, heating pads. etc.), reduced sales in Mexico due to economic contract, and sharply higher raw material prices.

In May 1996 Sunbeam appointed Al Dunlap, a well known executive with a proven track record of turning companies around with a extreme emphasis on cost reduction. Prior to his Sunbeam appointment, Dunlap was credited with improving results at Scott Paper and then selling that company to Kimberly-Clark. At the end of 1996, Sunbeam's announced massive restructuring and growth plan that came as no surprise to the investing public.

In 1997, Sunbeam recorded sales of $1.17 billion and adopted a 3 year growth plan that aimed at doubling revenues to $2 billion by 1999 along with increasing operating margins to over 20%. With Mr. Dunlap's appointment, Sunbeam's stock (NYSE:SOC) became a darling of Wall Street with its stock price rising from $15 (May 1996) to $42 (December 1997).

The year 1998 is a year of bad news: Sunbeam falls short of analysts' expectations (See "Sumbeam's Shares Plunge …" –*WSJ* April 6, 1998), is investigated by the SEC and required to restate its 1996 and 1997 earnings. From March 1998 to September 1998, Sunbeam lost over 80% of its value (Figure 1). By October 1998, Sunbeam stock is trading at $7.

Required:

Exhibit I presents Sunbeam's reported and restated Income Statements and Balance Sheets for the years 1996 and 1997.

1. Compute the 1997 values of the eight variables in the model for detecting earnings manipulation using both the originally reported and the restated data that appears in Exhibit I.
2. What type of earnings management likely occurred based on information in Exhibit I?
3. Compute Return on Equity (Net Income/Equity), Return on Assets (Net Income/Total Assets), and Profit Margin (Net Income to Sales), Cash ROA (Cash flow from Operations/Total Assets), Days Sales in Accounts Receivable.
4. What do you think of the corporate governance at Sunbeam based on the NYT article "Sunbeam's Board, in Revolt, Ousts Job-Cutting Chairman" from June 16, 1998?
5. In early December 1997, Sunbeam entered into a revolving trade accounts receivable securitization program to sell without recourse, certain trade accounts receivable. By the end of the month the Company had received approximately $59 million from the sale of trade accounts receivable. What effect, if any, does this transaction have on the likelihood of detection?

Prepared by M.D. Beneish. This case in based on publicly available information. It was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Exhibit I

SUNBEAM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
10-K For year ended December 31, 1997
As Amended
—Filed on October 12, 1998

13. RESTATEMENT

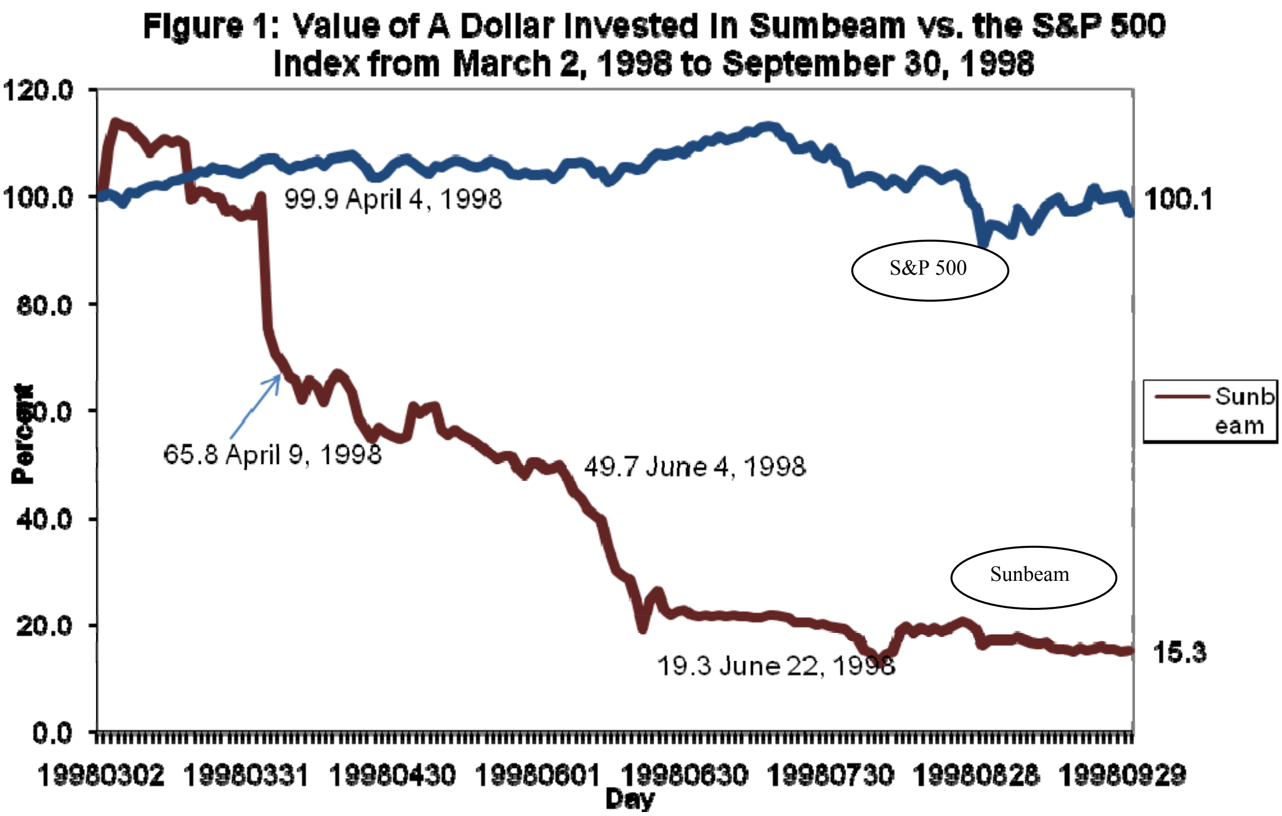
Subsequent to the issuance of the Company's Consolidated Financial Statements for the fiscal years ended December 28, 1997 and December 29, 1996, it was determined that the reported results generally inflated 1997 results at the expense of 1996 results. Upon examination, it was determined certain revenue was improperly recognized (principally "bill and hold" and guaranteed sales transactions), certain costs and allowances were not accrued or were improperly recorded (principally allowances for returns, cooperative advertising, and customer charge-backs as well as deductions and reserves for product liability and warranty expense) and certain costs were inappropriately included in, and subsequently charged to, restructuring, asset impairment and other costs within the Consolidated Statement of Operations. As a result, the accompanying Consolidated Financial Statements as of December 28, 1997 and December 29, 1996, and for the years then ended, present the restated results.

A summary of the effects of the restatement follows (in thousands, except per share data):

	CONSOLIDATED STATEMENTS OF OPERATIONS FISCAL YEARS ENDED			
	DECEMBER 28, 1997		DECEMBER 29, 1996	
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED
Net sales	$1,168,182	$1,073,090	$984,236	$984,236
Cost of goods sold	837,683	830,956	900,573	896,938
Selling, general and administrative expense	131,056	152,653	214,029	221,655
Restructuring and asset impairment (benefit) charges	--	(14,582)	154,869	110,122
Operating earnings (loss)	199,443	104,063	(285,235)	(244,479)
Interest expense	11,381	11,381	13,588	13,588
Other (income) expense, net	(1,218)	12	3,738	3,738
Earnings (loss) from continuing operations before income taxes	189,280	92,670	(302,561)	(261,805)
Income taxes (benefit)	66,152	40,352	(105,890)	(91,625)
Earnings (loss) from continuing operations	123,128	52,318	(196,671)	(170,180)
Loss from discontinued operations, net	(13,713)	(14,017)	(31,591)	(38,301)
Net earnings (loss)	$ 109,415	$ 38,301	$ (228,262)	$ (208,481)
Earnings (loss) per share of common stock from continuing operations:				
Basic	$ 1.45	$ 0.62	$ (2.37)	$ (2.05)
Diluted	$ 1.41	$ 0.60	$ (2.37)	$ (2.05)
Loss from discontinued operations:				
Basic	$ (0.16)	$ (0.17)	$ (0.38)	$ (0.46)
Diluted	$ (0.16)	$ (0.16)	$ (0.38)	$ (0.46)
Net earnings (loss) per share of common stock:				
Basic	$ 1.29	$ 0.45	$ (2.75)	$ (2.51)
Diluted	$ 1.25	$ 0.44	$ (2.75)	$ (2.51)

	CONSOLIDATED BALANCE SHEETS			
	AS OF DECEMBER 28, 1997		AS OF DECEMBER 29, 1996	
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED
ASSETS				
Cash and cash equivalents	$ 52,378	$ 52,298	$ 11,526	$ 11,526
Receivables, net of Allowances (1997: reported $17,450; restated $30,033. 1996: reported $16,049; restated $19.701)	295,550	228,460	213,438	209,754
Inventories	256,180	304,900	162,252	164,345
Net assets of discontinued operations and other assets held for sale	--	--	102,847	92,524
Deferred income taxes	36,706	--	93,689	85,067
Prepaid expenses and other current assets	17,191	16,584	40,411	38,381
Total current assets	658,005	602,242	624,163	601,597
Property, plant and equipment, net	240,897	249,524	220,088	229,393
Trademarks, trade names, goodwill and other net	221,382	207,162	228,458	228,458
Total assets	$1,120,284	$1,058,928	$1,072,709	$1,059,448
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current portion of long-term debt	$ 668	$ 668	$ 921	$ 921
Accounts payable	105,580	108,374	107,319	104,113
Restructuring accrual	10,938	5,186	63,834	51,725
Other current liabilities	80,913	118,899	99,509	84,986
Total current liabilities	198,099	233,127	271,583	241,745
Long-term debt	194,580	194,580	201,115	201,115
Other long-term liabilities	141,109	154,300	152,451	149,247
Deferred income taxes	54,559	4,842	52,308	52,308
Preferred stock	--	--	--	--
Common stock	900	900	884	884
Paid-in capital	483,384	479,200	447,948	447,948
Retained earnings	141,134	89,801	35,118	54,899
Other	(30,436)	(34,777)	(25,310)	(25,310)
Treasury stock	(63,045)	(63,045)	(63,388)	(63,388)
Total shareholders' equity	531,937	472,079	395,252	415,033
Total liabilities and shareholders' equity	$1,120,284	$1,058,928	$1,072,709	$1,059,448

	EXCERPTS FROM CONSOLIDATED STATEMENTS OF CASH FLOWS FISCAL YEARS ENDED			
	DECEMBER 28, 1997		DECEMBER 29, 1996	
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED
Depreciation	$ 38,577	$ 39,757	$ 47,429	$ 47,429
Cash Flow from Operations	(8,249)	(6,043)	14,163	14,163



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