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recognized revenue in significant unusual transactions.

Isaac M. O'Bannon • Jul. 10, 2014

The Public Company Accounting Oversight Board announced on Monday that it settled disciplinary order against Randall A. Stone, CPA, of Austin, Texas, a former PricewaterhouseCoopers LLP partner, for violating PCAOB rules and standards in PwC's 2007 audit of ArthroCare Corporation.

Stone was the partner in charge of the 2007 audit. His violations included ignoring or failing to properly address numerous indicators of improperly recognized revenue in significant unusual transactions.

The order bars Stone from associating with a registered public accounting firm — with the right to petition the Board to remove the bar after three years — and imposes a \$50,000 civil money penalty and a censure. Stone consented to the order without admitting or denying the findings.

The Board began the disciplinary proceeding in December 2012, but it remained nonpublic until now, as required by the Sarbanes-Oxley Act.

The Board found that Stone ignored or failed to properly evaluate numerous indicators that should have alerted him to the possibility that ArthroCare was improperly recognizing revenue on its 2007 sales of medical devices to DiscoCare, Inc. Such indicators included unusual pricing and payment terms, quarter-end sales spikes, and evidence that ArthroCare may have funded DiscoCare's purchases through monthly service fee payments. Sales to DiscoCare helped ArthroCare meet its revenue forecasts for 2007.

“Revenue often is a key metric for public company investors and is a financial reporting area prone to manipulation by management,” said Claudius B. Modesti,

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adequately assessing whether such accounting treatment complied with generally accepted accounting principles.

In addition, the Board found that Stone violated PCAOB rules and standards in authorizing PwC's consent to incorporate its previously issued 2007 audit report in ArthroCare's June 2008 Form S-8 registration statement without first completing a reasonable subsequent events investigation.

The Board found that when Stone authorized PwC's consent, he was aware of new allegations of impropriety concerning ArthroCare's relationship with DiscoCare in 2007, and he knew that ArthroCare and PwC were continuing to assess those allegations.

Separately, the Public Company Accounting Oversight Board announced the schools of the 102 academic recipients of \$10,000 merit scholarships intended to encourage students to pursue an auditing career.

The scholarship program, mandated by Congress in the Sarbanes-Oxley Act, provides awards to one student at each of 102 colleges and universities listed below.

“We are proud of the role this scholarship program plays in recognizing student achievement,” said PCAOB Chairman James R. Doty. “We hope to inspire students to become future thought leaders in auditing for the benefit of investors.”

This is the Board's fourth year granting scholarships through the PCAOB Scholarship Program.

The Sarbanes-Oxley Act of 2002 requires that monetary penalties imposed by the PCAOB in its disciplinary proceedings be used to fund a merit scholarship program

for students in accredited accounting degree programs. The PCAOB Scholarship

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- Not be a PCAOB employee, or a child or spouse of a PCAOB employee

The PCAOB scholarship program is merit-based, and educational institutions are encouraged to give consideration to students from populations that have been historically underrepresented in the accounting profession.

A description of the program, along with information on the nomination process, the selection of nominating institutions, and other details can be found on the [scholarship program](#) page of the PCAOB website.

2014-2015 Academic Year Scholarship Recipient Academic Institutions

1. Arizona State University
2. Auburn University
3. Bentley University
4. Binghamton University, State University of New York
5. Boston College
6. Bowling Green State University
7. Brigham Young University-Hawaii
8. Calvin College
9. Cleveland State University
10. College of William and Mary
11. Columbus State University

12. DePaul University

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18. Florida International University

19. Florida State University

20. Georgia State University

21. Governors State University

22. Grand Valley State University

23. Illinois State University

24. Indiana University Bloomington

25. Indiana University-Purdue University Indianapolis

26. Indiana Wesleyan University

27. James Madison University

28. Kaplan University

29. Keiser University

30. Kennesaw State University

31. Liberty University

32. Marist College

33. Marymount Manhattan College

34. Michigan State University

35. Mississippi University for Women

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41. Oklahoma State University

42. Pace University

43. Queens College, City University of New York

44. Rider University

45. Roger Williams University

46. Roosevelt University

47. Rutgers University, Newark

48. San Diego State University

49. Southern Methodist University

50. Southern New Hampshire University

51. St. John's University

52. Strayer University

53. Suffolk University

54. Temple University

55. Texas A&M University

56. Texas Christian University

57. Texas State University-San Marcos

58. Texas Tech University

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64. University of Central Florida

65. University of Dallas

66. University of Dayton

67. University of Denver

68. University of Great Falls

69. University of Houston

70. University of Houston-Clear Lake

71. University of Kansas

72. University of Mary

73. University of Massachusetts Amherst

74. University of Massachusetts Boston

75. University of Miami

76. University of Michigan

77. University of Mississippi

78. University of Missouri-Columbia

79. University of Missouri-Kansas City

80. University of Nevada, Las Vegas

81. University of North Carolina at Chapel Hill

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87. University of Phoenix

88. University of South Carolina Columbia

89. University of South Florida

90. University of Southern California

91. University of Tennessee, Knoxville

92. University of Texas at Arlington

93. University of Texas at Austin

94. University of Utah

95. University of Washington

96. University of Wisconsin-Madison

97. University of Wisconsin-Whitewater

98. Virginia Polytechnic Institute and State University

99. Wake Forest University

100. West Texas A&M University

101. Wichita State University

102. Xavier University

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