

High-Tech Trauma:
A Company's Travails
Show Why Economy
In Thailand Is Shot

Few Controls Over Business
Let Alphatec Get Away
With Odd Accounting

Fallout on U.S. Chip Makers

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BANGKOK, Thailand -- Always another loan, always another deal.

That was how Charn Uswachoke, better known in Thailand as "Mr. Chips," fended off jittery bankers in February, when a group of them asked why Alphatec Electronics PCL had just violated some terms of its international debt.

All would be set right, promised the kingpin of Thai electronics. Lehman Brothers Inc., Mr. Charn told lenders, would soon be unveiling an initial public offering of shares in a newly restructured Alphatec on the New York Stock Exchange. To tide over the debt-strapped semiconductor-packaging company, Lehman was asking banks to raise as much as \$1 billion of new loans for Mr. Charn's enterprises.

Yet even as the Lehman Brothers Holdings Inc. unit's plans moved forward, Alphatec was headed for more trouble. An independent audit by Price Waterhouse in July revealed that Alphatec, once a star on the Stock Exchange of Thailand, overstated profits by at least \$164 million between 1994 and this April, a period when the report says the company should have been reporting "significant losses." Revenue was said to be six to 10 times as high as it actually was, say current and former employees familiar with Alphatec's true numbers. Price Waterhouse also found Alphatec had transferred at least \$160 million of corporate funds to other Charn-controlled companies, without board approval, Alphatec has disclosed. And Price Waterhouse discovered Alphatec maintained two sets of widely divergent accounting books.

How such questionable dealings have brought Thailand's pre-eminent high-tech company to its knees is a parable of the economic rot in Thailand today. The fact that many big U.S. companies fell victim to Alphatec's deceit -- from Texas Instruments Inc. to Bankers

Trust New York Corp. and Lehman -- shows how alluring Thailand and Alphatec once were.

Alphatec handles the grunt work of microelectronics, the relatively low-tech, labor-intensive job of slicing up other manufacturers' silicon wafers, mounting the cut-up chips in plastic casings and testing the final product before shipment. Known in the trade as a chip "assembler" or "packager," Alphatec processes wafers for such semiconductor giants as Texas Instruments, Advanced Micro Devices Inc. and Cypress Semiconductor Corp.

Mr. Charn, who resigned as Alphatec's chief executive upon release of Price Waterhouse's initial findings but remains on the company's board, declined to be interviewed. In written responses to questions posed by The Wall Street Journal, he said he does "not necessarily accept" Price Waterhouse's conclusions concerning Alphatec's overstatement of profits. He acknowledged that about \$112 million was improperly transferred from Alphatec to another company he controls to buy land and build a factory, but said these transactions were disclosed in Alphatec's 1996 annual report. All of the money can be retrieved, he added.

"I want to emphasize that I did not personally gain from these transactions and that I acted in what I viewed as in the best interest of the company and the country," Mr. Charn said. "But because the market we operate in moves extremely quickly, I often had to make extremely fast decisions."

A graduate of North Texas State University in Denton, Mr. Charn, now 52 years old, founded Alphatec in 1988, after working for several years as a finance executive with AT&T Corp. and Honeywell Inc. He built up the company through connections with Thai-Chinese banking families, who remain his largest investors. For technical expertise, he relied on dozens of foreign semiconductor experts, most of them American. Thais managed the finances.

Though the numbers are heavily in doubt, Alphatec reported net income of about \$19 million last year, on revenue of about \$493 million.

Once lionized as Thailand's best hope for leapfrogging into the upper ranks of the world's technology producers, Alphatec now stands as an object lesson in the dangers of doing business in a country where management accountability is spotty at best. The stark absence of corporate controls at Alphatec -- the mingling of funds among listed and closely held companies run by the same family, the use of multiple sets of accounting books and misleading accounting methods, the highly paid, rubber-stamp board -- mirrors the problems at other Thai companies that have brought this country's economy to the brink of collapse.

During Thailand's go-go decade after 1985, such deficiencies could be papered over with easy credit and soaring stock prices. But now the reckoning has begun. Paribas Asia Equity, a regional securities brokerage firm, has reconstructed income statements of 20 listed Thai companies using stricter accounting standards. The result: About \$1.6 billion

of reported profits from the past five years turned into cumulative losses of more than \$700 million.

In Alphatec's case, the financial books were originally audited quarterly by KPMG Peat Marwick's Thai affiliate, KPMG Peat Marwick Suthee Ltd., which declines to comment. The Stock Exchange of Thailand is questioning the company's auditors about the discrepancies uncovered in the Price Waterhouse audit.

In May, Alphatec stopped making payments on its \$450 million of debt. Yet until recently, creditors say, the company and its board stonewalled efforts to resolve the financial morass, commissioning the Price Waterhouse audit only after receiving an ultimatum from creditors. After Price Waterhouse's conclusions became known internally, seven bags of shredded documents were found at Alphatec's finance department, says Leslie Merszei, Mr. Charn's senior financial adviser at the time. Mr. Merszei resigned from Alphatec on Aug. 1.

Holder of Alphatec's \$45 million of Eurobonds are scheduled to meet today in Zurich to consider a restructuring plan that would salvage Alphatec's main chip-assembly business. The creditors' other option is to push for liquidation, an outcome many of them say they want to avoid. Avoiding liquidation won't be easy. Thailand has no Chapter 11-type bankruptcy law to protect companies from creditors; some lenders are so fed up with Alphatec they may be unwilling to fall in line. Already, Banque Indosuez has filed suit in Bangkok to collect its Alphatec debt.

Mr. Charn resigned as CEO on July 31. But he vowed to remain a director to redress the problems. That the rest of the board has allowed him to stay raises questions about its objectivity, some creditors say. "We have been deeply disappointed with the [lack of] speed at which the board has come to grips with the central issues of this case," says Jan Cherim of ING Barings, coordinator of the creditors' steering committee. "Some people are very close to despair."

As Alphatec's debts ballooned out of control last winter, Mr. Charn pushed ahead with one of the most ambitious expansions in the global chip industry. Banking on the refinancing efforts launched by Lehman and others, he managed to keep construction going on three plants, valued at \$2.3 billion. In a first for Thailand, two of the plants, in partnership with Texas Instruments, were to perform some of the most advanced processes in microelectronics: the actual production of silicon wafers, the bailiwick of such hightech heavyweights as Intel Corp., AMD and Micron Technologies Inc.

The expansion was key to Mr. Charn's goal of gaining a foothold on every rung of the lucrative chip-making ladder. Following common Thai business practice, he created several new companies to develop these ventures, independent of publicly listed Alphatec, and put family members in charge. The units were financed with loans from Thai and foreign banks, which Mr. Charn expected to repay from stock offerings on Thailand's booming exchange.

Then, about a year ago, Thai stock prices began their long, steep fall, making initial public offerings of stock all but impossible. Mr. Charn was stuck.

Yet the questionable financial practices continued. From January to April this year, more than \$80 million of Alphatec funds were transferred, without board approval, to a Charn-controlled company that was building an industrial park for the new semiconductor plants, according to Mr. Merszei. Then, to hide continuing losses, Alphatec overstated first-quarter earnings by roughly \$20 million, the Price Waterhouse report says.

There is no evidence suggesting any Alphatec board members, aside from Mr. Charn, knew about the company's accounting irregularities. But that fact, too, is revealing, Thai industry observers say. Led by Chairman Waree Havanonda, 69, a management teacher and former assistant governor of Thailand's central bank, the board is composed primarily of bankers, none of whom have any prior experience with advanced-electronics companies.

"I warned Mr. Charn many times not to expand rapidly," says Mrs. Waree, who first met Mr. Charn when he was her student at business school. "He said, 'We have an opportunity; we must do it.' He wanted to be the king of electronics." Mrs. Waree denies Alphatec maintained two sets of accounting books, but acknowledges that "misstatements occurred" when production data were consolidated by Alphatec's finance department.

Even if some directors did know Alphatec was bankrolling other Charn-controlled ventures, it isn't clear they would have objected. One reason is that the key banks represented on Alphatec's board are backers of Mr. Charn's other companies; concerns about directors' conflicts of interest and fiduciary responsibilities hardly exist in Thailand, executives say. And, the practice of using public-company money to launch private companies is ubiquitous in Southeast Asia, where family-run conglomerates mingle funds at will.

The accounting irregularities surfaced in May. After several fruitless months trying to restructure Alphatec for an initial public offering, Lehman Brothers shifted strategies and embarked on a \$300 million high-yield-bond proposal instead. On May 11, a team of New York lawyers and investment bankers, led by Lehman technology chief Jack Skydel, visited Bangkok to run through the numbers with Alphatec's people.

Fifteen minutes before the meeting, Mr. Charn dropped a bombshell on Mr. Merszei: Alphatec's debt had expanded not by \$35 million, as Mr. Charn had recently indicated, but by \$100 million. Most of the increase had resulted from financial transfers to Mr. Charn's other companies, Mr. Merszei says Mr. Charn told him.

In another office, Mr. Merszei and a colleague, Robert Book, took Lehman's Mr. Skydel aside. "I said, 'This company is not a candidate in any debt or equity market in the world,'" Mr. Book, a long-time financial consultant to Mr. Charn, recalls. "'The financial practices here are not in keeping with the Western value system, or any value system. I'm sorry you came.'" The New Yorkers flew home that night.

Mr. Merszei called a moratorium on servicing Alphatec's debts, then nosed around some more. Though Alphatec's financial executives refused to open their books to him, with the help of other executives he pieced together an alarming picture. There was no way Alphatec, with its factories running as they were, generated the \$493 million of revenue it reported in 1996, or earned any profit at all, they concluded. They figured Alphatec must have had big losses, on less than \$80 million of sales in 1996.

To validate the hugely inflated revenue claims to KPMG's auditors, Mr. Merszei and several Alphatec creditors say, the company's finance department booked as revenue the full market value of each chip it shipped for several of its customers -- rather than the small fraction of that value that Alphatec actually earned for packaging and testing semiconductors produced by other companies.

Later, during the course of its audit, Price Waterhouse turned up what appeared to be fake invoices that Alphatec used to tap trade credits at Bangkok banks. The ruse was sloppy: Two of the fake invoices, complete with company logos, were on the misspelled stationery of "Cypres Semiconductors Corp." and "Philip International Inc."

In mid-June, Mr. Merszei brought his findings to Alphatec's board, which confronted Mr. Charn about them. At first, he denied everything, accusing Mr. Merszei of conspiring with others to put Alphatec into default so they could buy it out cheaply. Mrs. Waree, Alphatec's chairman, says the board pressed Mr. Charn to explain what happened. "He admitted the money went to purchase land and promised to pay it back."

Two weeks passed before Alphatec's board, under threat of default by bond holders, agreed to appoint Price Waterhouse to reaudit the company. The firm delivered its initial findings, confirming Mr. Merszei's suspicions, on July 24, a Thursday. That weekend, Mr. Charn resigned as CEO. Alphatec's acting chief, Robert Mollerstuen, who had been the company's president and chief operating officer, suspended seven officials in the company's finance department.

In road shows in Europe and the U.S., Mr. Mollerstuen, a longtime veteran of the U.S. chip industry, had been instrumental in legitimizing Alphatec and Mr. Charn to lenders and investors. Yet he was also in charge of the company's production and acknowledges that he knew Alphatec's operations yielded a fraction of the revenues reported and were never profitable.

"There were all these things we didn't have the slightest idea about" that could have boosted Alphatec's results without his knowledge, such as land and building transactions and sales to subsidiaries, Mr. Mollerstuen says. "The operations side was insulated; the finance people handled finance."

Mr. Mollerstuen says Alphatec retains a strong customer base and is rapidly moving toward real profitability. If creditors approve its restructuring and Alphatec re-establishes credibility, he estimates the company could quickly be worth as much as 10 times its \$23

million market value on Aug. 4, when trading in its shares was halted at roughly 67 U.S. cents apiece. At its height last year, Alphatec traded at nearly \$15 a share, giving it a market value then of nearly \$600 million.

Others disagree. "Alphatec, and Thailand, are mud in Silicon Valley now," says Harry Van Wickle, who resigned as president of Alphatec's U.S. unit in July. "This is going to stunt investment in Thai high tech for the next 10 to 20 years."

Two U.S. companies particularly affected by Alphatec's troubles, were Applied Materials Inc. and Texas Instruments, which took special charges in their most recent quarters of \$16 million and \$44 million respectively for unpaid Alphatec obligations.

Who else will pay the price? Not Mr. Charn or his board members, Thais predict. Thailand has a miserable record of punishing white-collar misdeeds. In January, for example, authorities missed the statute of limitations for filing charges of alleged banking-law violations against top officials of Bangkok Bank of Commerce PCL, which collapsed last year under \$3 billion of bad debt -- much of it owed by prominent politicians and the bank's own executives.

In the Alphatec case, authorities haven't raided the company to seize documents or questioned any company officials. Instead, a Stock Exchange of Thailand official says it is waiting for Alphatec's management, the presumed focus of any investigation, to give the exchange a copy of Price Waterhouse's report.

"The lower-level guys will get the blame," says the president of one of Thailand's biggest banks, a major Alphatec creditor. "In Thailand, it's always someone else's fault."

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