Jairo Gonzalez can do no wrong. At Hypercom Corp., a Phoenix-based maker of card swipes for checkout counters, he has cracked open new markets in places like Brazil, Colombia and Turkey, driving huge sales growth and taking market shares of up to 80%. His successes helped build Hypercom into the world’s second-largest vendor of the swipes. Sales climbed sixfold in seven years, to $327 million by 2000. Twenty months ago Gonzalez was promoted to president of Hypercom’s biggest division, which generates 85% of total revenue. Now he is taking aim at China and India. He is also in line to become chief executive. Hypercom’s chairman, George Wallner, 51, who founded Hypercom in 1978 and took it public in 1997, says: “Jairo is brilliant, absolutely brilliant. He’s a rock star.”

But Hypercom’s rock star has a behavior problem. Gonzalez has been accused of rape by his former secretary, who was paid nearly $100,000 by Hypercom to keep quiet about the matter. He has been accused of sexual harassment or verbal abuse by three other women at Hypercom, one of whom also won a $100,000 payoff. Gonzalez also has shown a penchant for self-dealing. In the early 1990s he set up his own business—with a branch office inside a Hypercom warehouse managed by his father—to charge the company for shipping orders to overseas markets. A year and a half ago he got a job for a girlfriend at a video production firm Hypercom had hired in Miami; then she moved to Phoenix, his home base, and joined a second video firm, and Hypercom hired that company.

None of this was enough to derail Gonzalez’s career—not even the potential liability Hypercom could face if he is accused of
“He needs help. He attacks women. He’s got a bad temper. Do you want your daughter working for him?”

harassment by other women at the company. George Wallner says holding on to Iairo was a cold but smart business decision. Worldwide, Hypercom has a 20% share and trails only Ingenico of France. On Gonzalez’s home turf in Latin America, Hypercom holds a 42% share. In Europe its share grew twentyfold in four years to 10%. Gonzalez gets much of the credit for all of this.

“He was bringing in $70 million a year. Do you fire your top rock star because he’s difficult? I thought we could redeem him,” says Wallner, adding that if he believed the allegations, “I would fire his ass on the spot.” In settling the rape charge, “the $100,000 we spent was well worth the [sales] he was bringing in,” Wallner says. “That’s as a business decision—not on a moral level. On a moral level this is confusing. But if you think of only the business decision, it was dead right.”

At some point, though, morals count for something. Many companies face the dilemma: If a top producer gets in an embarrassing scrape, should he be fired? What if a terrific salesman cheats on his expense account, or a key executive is sued for sexual harassment or arrested for drunk driving? To set the threshold of indignation too high runs the risk that the miscareful next mistake will cost your company a devastating legal settlement. To set it too low means losing talent to a rival. After all, even troubled souls can turn their lives around. As a stockbroker Jonathan Ornstein was fired for unauthorized trading and other sins, but then he went on to great success as an airline executive ( FORBES, Aug. 9, 1999).

OFTEN, HOWEVER, misdeeds—even criminality—are tolerated in high places. Cowen & Co. may have reacted too mildly when broker Frank Gruttadauria was investigated for fraud in the early 1990s; in February he was charged with pilfering $40 million from clients over the past 15 years. Shoe-biz impresario Steven Madden just got sentenced to 41 months in prison for stock manipulation, but he still gets $700,000 a year plus bonuses as creative chief. Shopping mall magnate A. Alfred Taubman is appealing a 12-month sentence for price-fixing at Sotheby’s, yet he has just been reelected to the board of media company Hollinger International ( see box, above).

In 1999 Vogue publisher Richard Beckman broke an employee’s nose while jokingly trying to make her kiss another employee’s lips. Beckman kept his job—and in January he received a promotion to chief marketing officer of Condé Nast. Milan Panic, former chief executive of I2 Technologies and later became its chief executive, after I2 paid to settle a sexual harassment complaint against him in 1999. Panic denied the claims; the SEC decision is pending. He recently retired in a shakeup. Gregory Brady kept his job at Dallas software shop 12 Technologies and later became its chief executive, after 12 paid to settle a sexual harassment complaint against him in 1999. He resigned in April for “personal reasons.”

At Hypercom, Wallner says the hell-bent pursuit of revenue pushed the company to extremes. It had taken 15 years to hit $50 million in sales, but as the digital economy boomed in the late 1990s, Hypercom’s growth surged. “It was like a dot-com, except these guys were bringing in money,” he says. “It was a highly charged environment. That produced results, but it also produced some problems. It was a wild place.”

How wild? One exec married a temp in his department, then hired her full time. Albert Ira, chief executive from 1992 to 1999, borrowed $220,000 from Hypercom. Wallner and his brother, Paul, borrowed $4.5 million from Hypercom, some of it interest-free. The borrowings were disclosed in SEC filings—but if they all reinforced an anything-goes ethos at the company.

George Wallner readily admits female employees had reason to complain about Gonzalez. “He was brash and abrasive. He would yell at people, intimidate people,” he says. “[Gonzalez] was a womanizer. He messed around with other women, or he

SEXUAL HARASSMENT LITIGATION IS a big business, with 15,000 cases a year filed at the Equal Employment Opportunity Commission. Since 1995 dollars paid in EEOC settlements have more than doubled, to $53 million last year. Typically firms pay but admit no wrongdoing; the accused in the cases below denied the charges.

Peter Karmanos Jr., 59, chief executive of Compuant. Karmanos, co-founder of this $1.7 billion (sales) software firm in Farmington Hills, Mich., was named in two sexual harassment cases brought in 1998 by ex-employees. In 1999 Compuant settled one case, filed by a former personnel chief, a woman. The other case was dismissed in 2001. Karmanos kept his job.

Dan K. Wassong, 71, chief executive of Del Laboratories. An EEOC suit in 1994 accused him of verbally and physically abusing female workers. He allegedly grabbed a woman’s breasts, rubbed another’s backside and made graphic gestures. Del Labs paid $1.2 million to settle the case in 1995 but didn’t seek reimbursement from Wassong, who kept his job running this $332 million cosmetics

Celebrity photos: © CORBIS SYGMA (MADDEN); AP / WIDE WORLD (PANIC, FRANK, KARMANOS, TAUBMAN)
company in Farmingdale, N.Y.

Sidney Frank, 83, chief executive of Sidney Frank Importers. Frank hired comedy “Jagerettes” to promote Jagermeister, the frat-boy herbal liqueur im- ported by his privately held New Rochelle, N.Y. firm. They complained the boss tried to kiss them, grope them and solicit sex, an EEOC case states. In 1998 another suit was settled, one for $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ning set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer- ing set for November 1997, Gonzalez was making $228,000 a year, plus bonuses. In the stock offer-
for executives. When she arrived, Gonzalez was waiting for her, “drunk and hostile.” He dragged her into a bedroom and raped and sodomized her, Smith alleges. She says she went to an emergency room afterward but did not go to the police.

Smith, 41, says she was too intimidated to complain to the cops or the company. (She testified she had seen guns at Gonzalez’s home.) Instead, Smith got a transfer—to a job in the Phoenix warehouse, working for Gonzalez’s father. She alleges that in the summer of 1997 Gonzalez Sr. sent her on an errand to another house Hypercom rented, Jairo was there and assaulted her again, and that a third attack happened soon after. When she gave her account in October 1997, Wallner says, he offered to take Smith to the police but she declined.

**BUT WALLNER** didn’t believe Smith, either. He thought Gonzalez and Smith had been dating and had broken up and that Smith was now seeking revenge. “It’s hard to believe when people are dating that it would be a rape,” Wallner says. Smith responds that she never dated Gonzalez. “I never had lunch with him, never had drinks with him. Nothing.”

When the allegations surfaced, some executives wanted Gonzalez fired, but Wallner refused. “This was tearing us apart,” he says. “We understood there was serious exposure, but we also understood his value.” As penance Wallner moved Gonzalez out of Hypercom’s Phoenix base and put him in Europe. He says he demoted Gonzalez, although Hypercom Chief Executive Christopher Alexander says the job in Europe wasn’t a demotion.

To dispose of Smith’s complaint, Hypercom struck a deal with her, agreeing to pay off her $89,000 mortgage and $7,000 in legal bills and give her a bonus of $2,500. The firm also agreed to put her sons through college if she kept her claims secret, according to court documents and Wallner. In November 1997 the stock issue went off without a hitch. George and Paul Wallner each sold 1.2 million shares at $16, pocketing $19.2 million apiece. (They now hold a combined 44.6% of the company.)

**SOON AFTER** Smith accepted the offer, she began receiving notes, flowers and gifts from another executive—John Murphy, the personnel chief, who later left. “Some of this is so amazingly dumb it’s frightening,” Wallner says. “It was very poor judgment.” Murphy, who didn’t return calls seeking comment, later married a temp in his area and then hired her. “It wasn’t really the best setup,” Wallner admits.

Then trouble struck—again. In 1998 a fourth woman at Hypercom, Ali Valdez, complained that Gonzalez was abusive. She quit and in September 1998 got a $100,000 settlement, Wallner says. “We already had [the Colleen Ryan Smith case], we didn’t want another one,” he says. Valdez declines to comment.

Wallner says he didn’t pay Gonzalez a bonus for two years and made him pay back the $100,000 Hypercom had paid Valdez. In 1999 Gonzalez gave up his board seat, though Wallner says this wasn’t related to the complaints. But the Valdez settlement angered Smith, who says she felt Hypercom had enabled Gonzalez to strike again. In late 1998 she sued the company in Arizona Superior Court, claiming management had violated her agreement by leaking word to other employees. It was a back-door attempt by her lawyer, Larry J. Debus, to revive a case against the company. He says that Hypercom coerced her into accepting a bad settlement and urged her to not go to the police, conspiring to cover up a crime.

Hypercom fired Smith in January 1999, alleging she had

“He was bringing in $70 million a year. Do you fire your number one rock star because he’s difficult?”

—George Wallner, chairman of Hypercom
In September of the same year a judge dismissed Smith’s law-
suit, ruling that Hypercom had fulfilled the obligations of the
settlement and that Smith had relinquished her right to sue. “As
abhorrent as Gonzalez’s assaults on Plaintiff and Hypercom’s
retention [of him] as an officer and director were, they are not
the issues the court was called upon to decide,” Superior Court
Judge Edward O. Burke wrote. Burke also ordered Smith to pay
Hypercom $40,000 in attorney’s fees. Smith appealed to the Ari-
zona Court of Appeals, and late last month the court ruled in
her favor. Her attorney now hopes to pursue broader action
against Gonzalez, Murphy and Hypercom. “The behavior is so
egregious that the damages could be astronomical. You could see
a jury awarding double-digit millions,” Debus says.

In November 2000 Gonzalez moved back to Phoenix and
was named president of Hypercom’s biggest division, Transac-
tion Systems Group. In 2001 Gonzalez was granted 300,000
options at $3.50 a share. With a 1997 grant of just over 1 million
shares, Gonzalez has a 2.4% stake in Hypercom, making him the
largest individual shareholder after George and Paul Wallner.

“Jairo redeemed himself. He took management courses, he
sought counseling. This guy has really turned himself around,”
Wallner says. Gonzalez is the most likely candidate to become the
next chief executive of Hypercom, succeeding Alexander, says Peter
Quadragno of Quadragno & Associates, who follows the company.
Wallner, the chairman, calls this view “pure speculation.”

GONZALEZ ALIENATED: colleagues by hiring friends and rela-
tives. In 2001 Hypercom hired a Miami company to make videos
for its annual conference, then lined up a job at that company for
Gonzalez’s girlfriend. For this year’s conference, Hypercom hired
a Phoenix company that had recently hired her. Wallner says sim-
ply that both video outfits did terrific work.

Wallner, too, has benefited personally from his ties to Hypercom. In 1994 he borrowed from
Hypercom to buy a house, paying back nearly $3
million, including interest, by 1997. From 1995 to
1997 he operated a side company, Digitech Re-
search, that billed Hypercom $620,000 and re-
ceived $200,000 in interest-free advances from
Hypercom. (Wallner dissolved the company in
1998.) In 1997, months before the offering, Wall-
er and his brother each took $750,000 in inter-
est-free loans from Hypercom. They don’t have
to repay until 2004. When the board okayed the
loans, it had only one true outsider among its six
members; insiders included the two Wallners,
Gonzalez, then-chief Irato and Irato’s brother-
in-law, Peter Hart, who helped run a Hypercom
supplier. The freebie loans to the Wallners look
particularly galling now: In 2000 and 2001, when
Hypercom hit hard times and needed a loan,
George Wallner ponied up $3.1 million—but
charged the company 12% interest.

The last two years have been tough for Hyper-
com. Sales declined 11% to $291 million last year.
The company put $10 million into a Web venture
run by Paul Wallner; it has been sold. As profits
turned to losses, Hypercom defaulted on loan
covenants and had to borrow from new lenders to
pay off the old ones. The stock, at $15 two years
ago, is down to $7. Wallner, eager to move on, says
he is confident Hypercom will prevail in court
against Colleen Ryan Smith. “It wasn’t really a
pleasant episode,” he says. “But I think this hap-
pens all the time. Some of these rock stars are also
a bit eccentric.”

The behavior is so egregious that the damages
could be astronomical. You could see a jury awarding
double-digit millions.” —Larry J. Debus, lawyer for Colleen Ryan Smith