

**GREED AND TRANSPARENCY NOT ALWAYS IN SYNC**  
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I recently read an article in *Forbes Magazine* dated May 21, 2007 titled "Executive Pay, Big Paychecks." The article highlighted the 100 highest-compensated CEOs out of the Standard & Poor's 500. Compensation included salary plus perks plus options plus realized stock gains and more.

The article stated, "proxies are fatter this year but they don't necessarily paint a clearer picture for shareholders." I fully agree with this statement, but after looking at the data I reached a slightly different conclusion. Most executives, particularly those whose compensation appears excessive, are sensitive to more direct disclosure; however, this sensitivity does not necessarily carry over to a willingness to be transparent in their financial reporting.

Examination of the data provides some interesting insights. The table below focuses on the top 50 companies from the *Forbes* list for which current forensic data is available, listed in descending order of AGR® score.

**Audit Integrity**  
**Highest-Compensated Executives**

| <i>Ticker</i> | <i>Company</i>         | <i>AGR®<br/>Ranking</i> | <i>AGR®<br/>Score</i> | <i>Market Cap<br/>(\$000's)</i> | <i>CEO</i>               | <i>Salary<br/>(\$000's)</i> | <i>Other<br/>(\$000's)</i> | <i>Stock<br/>Gains<br/>(\$000's)</i> | <i>1-Year<br/>Total<br/>(\$000's)</i> |
|---------------|------------------------|-------------------------|-----------------------|---------------------------------|--------------------------|-----------------------------|----------------------------|--------------------------------------|---------------------------------------|
| CB            | Chubb                  | Conservative            | 81                    | 22,139,750                      | John D. Finnegan         | 4,518                       | 15,480                     | 20,688                               | 40,686                                |
| HUM           | Humana                 | Conservative            | 81                    | 10,909,130                      | Michael B. McCallister   | 2,452                       | 424                        | 25,879                               | 28,755                                |
| ANF           | Abercrombie & Fitch    | Conservative            | 80                    | 7,397,653                       | Michael S. Jeffries      | 4,080                       | 2,094                      | 108,464                              | 114,638                               |
| CMCSA         | Comcast                | Average                 | 79                    | 84,427,290                      | Brian I. Roberts         | 13,903                      | 4,019                      | 19,921                               | 37,843                                |
| MAR           | Marriott Intl.         | Average                 | 79                    | 17,845,250                      | J. Willard Marriott, Jr. | 2,496                       | 1,068                      | 32,276                               | 35,840                                |
| DELL          | Dell                   | Average                 | 78                    | 56,585,910                      | Michael S. Dell          | 2,755                       | 1,001                      | 149,472                              | 153,228                               |
| RHI           | Robert Half Ints.      | Average                 | 78                    | 5,727,648                       | Harold M. Messmer, Jr.   | 6,293                       | 9,578                      | 58,377                               | 74,248                                |
| Q             | Qwest Comm             | Average                 | 77                    | 16,645,490                      | Richard C. Notebaert     | 5,238                       | 9,128                      | 18,429                               | 32,795                                |
| LEH           | Lehman Bros Holdings   | Average                 | 76                    | 40,841,180                      | Richard S. Fuid, Jr.     | 7,000                       | 12,713                     | 31,937                               | 51,650                                |
| TGT           | Target                 | Average                 | 76                    | 52,131,830                      | Robert J. Ulrich         | 7,789                       | 14,226                     | 26,078                               | 48,093                                |
| TXT           | Textron                | Average                 | 73                    | 12,824,360                      | Lewis B. Campbell        | 3,173                       | 16,245                     | 10,184                               | 29,602                                |
| ATI           | Allegheny Technologies | Average                 | 70                    | 11,699,540                      | L. Patrick Hassey        | 3,800                       | 35,342                     | 5,098                                | 44,240                                |
| EXC           | Exelon                 | Average                 | 70                    | 51,424,100                      | John W. Rowe             | 3,144                       | 6,324                      | 20,349                               | 29,817                                |
| BER           | WR Berkley             | Average                 | 69                    | 6,338,372                       | William R. Berkley       | 10,500                      | 5,770                      | 38,331                               | 54,601                                |
| DIS           | Walt Disney            | Average                 | 69                    | 72,043,160                      | Robert A. Iger           | 17,000                      | 4,965                      | 7,962                                | 29,927                                |
| CFC           | Countrywide Financial  | Average                 | 68                    | 23,009,560                      | Angelo R. Mozilo         | 22,224                      | 726                        | 119,025                              | 141,975                               |
| FCX           | Freeport Copper        | Average                 | 68                    | 26,076,410                      | Richard C. Adkerson      | 1,250                       | 5,937                      | 28,222                               | 35,409                                |
| BXP           | Boston Properties      | Average                 | 66                    | 13,975,410                      | Edward H. Linde          | 2,516                       | 12                         | 39,723                               | 42,251                                |
| ORCL          | Oracle                 | Average                 | 65                    | 97,419,350                      | Lawrence J. Ellison      | 7,407                       | 1,839                      | 63,173                               | 72,419                                |
| WLP           | WellPoint              | Average                 | 65                    | 48,490,980                      | Larry C. Glasscock       | 3,304                       | 19,339                     | 9,531                                | 32,174                                |
| TOL           | Toll Brothers          | Average                 | 65                    | 4,730,805                       | Robert I. Toll           | 18,831                      | 405                        | 10,116                               | 29,352                                |
| DF            | Dean Foods             | Average                 | 64                    | 4,832,003                       | Gregg L. Engles          | 3,420                       | 4,937                      | 57,720                               | 66,077                                |

|      |                        |                 |    |             |                         |        |         |         |         |
|------|------------------------|-----------------|----|-------------|-------------------------|--------|---------|---------|---------|
| UTX  | United Technologies    | Average         | 64 | 67,273,210  | George David            | 5,592  | 3,957   | 28,303  | 37,852  |
| MO   | Altria Group           | Average         | 64 | 145,589,000 | Louis C. Camilleri      | 6,250  | 27,927  | 3,278   | 37,455  |
| WYE  | Wyeth                  | Average         | 64 | 75,190,180  | Robert A. Essner        | 4,662  | 20,797  | 4,159   | 29,618  |
| CVS  | CVS/Caremark           | Average         | 64 | 56,338,670  | Thomas M. Ryan          | 5,950  | 6,065   | 14,640  | 26,655  |
| AAPL | Apple                  | Average         | 63 | 85,466,270  | Steven P Jobs           | ---    | 646,600 | ---     | 646,600 |
| GD   | General Dynamics       | Average         | 63 | 32,009,060  | Nicholas D. Chabreja    | 4,500  | 3,105   | 21,518  | 29,123  |
| OXY  | Occidental Petroleum   | Average         | 61 | 44,613,290  | Ray R. Irani            | 4,100  | 47,360  | 270,177 | 321,637 |
| BSC  | Bear Stearns Cos.      | Average         | 61 | 18,776,370  | James E. Cayne          | 17,321 | 20,993  | ---     | 38,314  |
| GNW  | Genworth Financial     | Average         | 61 | 15,689,410  | Michael D. Fraizer      | 4,121  | 8,500   | 16,296  | 28,917  |
| YHOO | Yahoo                  | Average         | 60 | 38,646,460  | Terry S. Semel          | 600    | 2       | 173,600 | 174,202 |
| IGT  | Intl Game Tech         | Aggressive      | 59 | 13,260,320  | Thomas J. Matthews      | 5,622  | 54      | 24,229  | 29,905  |
| XTO  | XTO Energy             | Aggressive      | 58 | 20,365,160  | Bob R. Simpson          | 32,208 | 230     | 39,835  | 72,273  |
| COH  | Coach                  | Aggressive      | 58 | 18,982,490  | Lew Frankfort           | 2,903  | 5,814   | 57,146  | 65,863  |
| GS   | Goldman Sachs Group    | Aggressive      | 54 | 91,828,030  | Lloyd C. Blankfein      | 27,844 | 9,203   | ---     | 37,047  |
| SNDK | SanDisk                | Aggressive      | 53 | 10,323,350  | Eli Harari              | 2,000  | 7       | 36,969  | 38,976  |
| BAC  | Bank of America        | Aggressive      | 52 | 225,149,600 | Kenneth D. Lewis        | 8,000  | 14,760  | 77,042  | 99,802  |
| LTD  | Limited Brands         | Aggressive      | 51 | 11,525,820  | Leslie H. Wexner        | 5,037  | 1,657   | 28,041  | 34,735  |
| COP  | Conoco Phillips        | Aggressive      | 50 | 119,067,600 | James J. Mulva          | 4,884  | 30,423  | 221     | 35,528  |
| IACI | IAC/InterActiveCorp    | Aggressive      | 46 | 11,057,670  | Barry Diller            | 3,976  | 956     | 290,205 | 295,137 |
| CSCO | Cisco Systems          | Aggressive      | 45 | 160,362,900 | John T. Chambers        | 1,650  | 7       | 69,675  | 71,332  |
| FNF  | Fidelity National Finl | Aggressive      | 44 | 9,284,803   | William P. Foley II     | 22,000 | 3,445   | 154,112 | 179,557 |
| AMTD | TD Ameritrade Holding  | Very Aggressive | 39 | 10,087,540  | Joseph H. Moglia        | 7,153  | 29      | 55,055  | 62,237  |
| GILD | Gilead Sciences        | Very Aggressive | 39 | 39,065,770  | John C. Martin          | 2,448  | 4       | 30,054  | 32,506  |
| MER  | Merrill Lynch          | Very Aggressive | 38 | 79,761,500  | E. Stanley O'Neal       | 19,200 | 375     | 16,667  | 36,242  |
| JPM  | JPMorgan Chase         | Very Aggressive | 36 | 180,858,900 | James Dimon             | 14,000 | 3,084   | 40,086  | 57,170  |
| T    | AT&T                   | Very Aggressive | 34 | 243,271,800 | Edward E. Whitacre, Jr. | 8,883  | 38,840  | 1,289   | 49,012  |
| FDC  | First Data             | Very Aggressive | 26 | 24,535,990  | Henry C. Duques         | 1,900  | 134     | 96,176  | 98,210  |
| WFC  | Wells Fargo            | Very Aggressive | 22 | 120,853,300 | Richard M. Kovacevich   | 9,495  | 544     | 62,006  | 72,045  |

One curiosity was that highest-compensated CEOs come from a broad array of industries. Finance (including banks and broker dealers) is substantially overweighted among this rarified population, but it is important to note that greed is a personal issue not industry-specific.

Second, and most importantly, this list is ranked by Accounting and Governance Risk (AGR<sup>®</sup>) rating. It is interesting to note that the distribution across AGR ratings is not unlike the expected distribution in the population overall, although there are far fewer conservative companies in this small sample of 50.

| <u>AGR Ranking</u> | <u>Total Population</u> | <u>50 Highest-Compensated Executives</u> |
|--------------------|-------------------------|--|
| Conservative       | 15%                     | 6%                                       |
| Average            | 50%                     | 58%                                      |
| Aggressive         | 25%                     | 22%                                      |
| Very Aggressive    | 10%                     | 14%                                      |

This came as a surprise to me until I reminded myself that compensation alone is not a forensic predictor of fraud or other disappointments. In fact, short-term compensation over total compensation is a predictor but only one of over 70 used in the AGR model. As a shareholder, I am certainly not thrilled with excessive executive compensation, but this data tells us that compensation -- even short-term compensation over total compensation -- is but one indicator of potential risk.

More importantly, we need to more carefully focus on those companies whose executives not only suffer with greed but, when examined under a brighter light, are discovered to be less than candid with their shareholders, providing misleading, inaccurate, or incomplete information. More often than not, these companies are going to drop a bomb on the shareholders. These bombs tend to explode after management has salted the profits away or -- even worse -- has jumped off with a large golden parachute.

Looking at this list, I would be particularly watchful of Wells Fargo (WFC), JP Morgan Chase (JPM), AT&T (T), Merrill Lynch (MER), and Gilead Sciences (GILD). The combination of greed, a human motivation, coupled with lack of candor is a slippery slope for investors.



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