



“Who Are They Kidding?”

December 4, 2007

The Wall Street Journal article dated November 21, 2007 titled “Big Buybacks Begin to Haunt Firms,” was not only timely, but prescient.

On 11/26/07, Citigroup, a major buyback player over the past two years, was forced to borrow \$7.5 billion in Preferred equity at a yield exceeding current junk bond rates (11%).

On 11/30/07, Freddie Mac, who bought back common shares and increased their leverage, was forced to issue \$6.0 billion of Preferred shares at 8.375%, 490 basis points over the 5-year Treasury – a historic spread for a quasi-government agency.

I can assure you that there is far more to come over the next year. The following is a laundry list of financial entities that repurchased shares in their companies and very likely will require additional capital to sustain their ongoing business (i.e., the need to survive). The list for non-financial companies is far longer and has the same repercussions. Note, this is not only a U.S. phenomenon – overseas companies are also on the list.

This required recapitalization will punish the shareholders, diluting equity at low prices. In some cases, the inability to refinance may lead to reorganization. Buybacks will turn out to be one of the worst management decisions made in recent history.

Of course, Company managers will argue that they could not foresee how events would unwind, but their actions speak otherwise. By increasingly leveraging their businesses, they were betting that good times would last forever – a naïve and self-serving forecast. Naïve, because nothing lasts forever. Self-serving, because management benefited from the window-dressing that buy-backs provided, by exercising Options and selling stock at the inflated prices that resulted over the short term. Countrywide Financial’s management appears particularly adept at this process, but in the end will merely be one of many.

The financial impact of this window-dressing charade will last for years to come. Shareholders will take years to recover their losses. The primary beneficiaries will be Petrodollar countries, as they acquire distressed properties, and plaintiffs’ attorneys, who will demand the repatriation of funds stolen from them.

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CHAIRMAN

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FINANCIAL COMPANIES WITH LOW INTEGRITY RATINGS* AND SHARE REPURCHASES IN THE LAST 2 YEARS

LARGE CAP COMPANIES		
AGR® Rating	Company Name	Ticker Symbol
Very Aggressive	Genworth Financial, Inc.	GNW
Very Aggressive	Hartford Financial Services	HIG
Very Aggressive	Merrill Lynch & Co., Inc.	MER
Very Aggressive	Morgan Stanley	MS
Very Aggressive	PNC Financial Services	PNC
Very Aggressive	TD Ameritrade	AMTD
Very Aggressive	The Bank of New York Mellon Corp.	BK
Very Aggressive	The Bear Stearns Companies, Inc.	BSC
Aggressive	Bank of America Corporation	BAC
Aggressive	Citigroup Inc.	C
Aggressive	FreddieMac	FRE

SMALL TO MID CAP COMPANIES		
AGR® Rating	Company Name	Ticker Symbol
Very Aggressive	Centerline Holding Company	CHC
Very Aggressive	Farmers Capital Bank Corp	FFKT
Very Aggressive	Sierra Bancorp	BSRR
Very Aggressive	Temecula Valley Bancorp Inc. (CA)	TMCV
Very Aggressive	The First Marblehead Corporation	FMD
Very Aggressive	United Community Bancorp	UCBA
Aggressive	1st Centennial Bancorp	FCEN
Aggressive	Amcore Financial, Inc.	AMFI
Aggressive	American River Bancshares	AMRB
Aggressive	Centennial Bank Holdings, Inc.	CBHI
Aggressive	Community Bancorp	CBON
Aggressive	Eastern Insurance Holdings, Inc.	EIHI
Aggressive	FirstFed Financial Corp.	FED
Aggressive	International Bancshares Corporation	IBOC
Aggressive	IPC Holdings, Ltd.	IPCR
Aggressive	MoneyGram International, Inc.	MGI
Aggressive	Oriental Financial Group Inc.	OFG
Aggressive	Quanta Capital Holdings Ltd.	QNTA
Aggressive	United Western Bancorp, Inc.	UWBK
Aggressive	WestAmerica Bancorp	WABC

LARGE CAP INTERNATIONAL COMPANIES		
AGR® Rating	Company Name	Ticker Symbol
Very Aggressive	Credit Suisse Group (ADR)	CS
Very Aggressive	Deutsche Bank Ag. (USA)	DB
Very Aggressive	ING Groep N.V. (ADR)	ING
Very Aggressive	SwedBank AB (ADR)	SWDBY
Very Aggressive	Swiss Re (ADR)	SWCEY

** The Accounting and Governance Risk (AGR) rating from Audit Integrity is a forensic and proprietary measure of the aggressiveness of a corporation's financial reporting and governance behavior, statistically designed to uncover corporate fraud and other financial transparency risks.*