

CHAIRMAN'S CORNER

by James A. Kaplan



Another Reason for Corporate Fraud: "We Like Stealing"

September 14, 2009

"We like stealing" is a direct quote from Gary Holdren, then Chairman and CEO of Huron Consulting Group.

The statement was made at an analysts' conference, where Mr. Holdren revealed that he liked "really messy stuff." He went on to say, "We like people to commit fraud. We like stealing. We like all those things because it creates an opportunity for us to help somebody."¹ The inference was that Huron protected its consulting clients. He failed to specify that at that very time, a massive fraud was being perpetrated on Huron's own shareholders.

On July 31, 2009 Huron Consulting disclosed that it improperly accounted for some of the buyouts that helped make it the third-fastest growing publicly traded company in Chicago in 2007.² This disclosure forced a substantial earnings restatement, provoked an SEC investigation, and resulted in a growing number of shareholder lawsuits.

Well, it's comforting to know that Mr. Holdren was true to his word. He does like stealing, even from his shareholders.

Mr. Holdren publicly claimed he did not know about the improper accounting, but he resigned, along with his CFO and CAO. It should be noted that Mr. Holdren, prior to his serving as Chairman and CEO of Huron Consulting, was a partner at Arthur Andersen. He served as the Midwest Director of Global Client Services, and also served as the Executive Counsel of Anderson Worldwide from 1994 to 1998. He had more than 30 years of experience consulting with corporations and legal advisors on complex financial and business matters.³

As Audit Integrity's CEO, Jack Zwingli, kindly put it in a recent Crain's publication, "Of course management should have been aware of it. They can claim ignorance, but coming from the type of background these individuals had, the claim of ignorance rings hollow."⁴ I believe Jack was being very generous. I attribute absolutely no credibility to the statements of someone like Mr. Holdren, who clearly likes stealing.

Huron has proven to be an absolute disaster for its stakeholders. Within hours of the disclosure of improper accounting, Huron's stock price had plummeted 75%. Per usual, management skated by while stakeholders were left holding the bag. And don't believe for a minute that the Huron event is unique. This kind of corporate implosion due to accounting malfeasance will happen again, and investors who ignored the warning signs will lament, "If only I had known."

Our job at Audit Integrity is to inform the stakeholder community of potential problems such as those at Huron Consulting. **We had rated Huron a "Very Aggressive" company for the three**

¹ "How Huron jumped tracks," *Crain's ChicagoBusiness*, September 7, 2009

² "Fast Fifty," *Crain's ChicagoBusiness*, May 31, 2008

³ "Huron Consulting Group: From the Ashes of Andersen," *BusinessWeek*, June 4, 2007

⁴ "How Huron jumped tracks," *Crain's ChicagoBusiness*, September 7, 2009

quarters ending June, 2009 -- ample time for investors to do their own analysis, confirm our results, and take action that would have protected them from disaster.

The events at Huron Consulting serve as a model to ferret out similar potential disasters. Consider the warning signs flagged by Audit Integrity:

- Mr. Holdren was a strong-minded executive who, as both Chairman and CEO, encountered no meaningful opposition to his management of the company.
- His total compensation was high compared to his peers.
- Huron had a high, and growing, ratio of Goodwill to Intangibles -- hard-to-value assets, and easily manipulated by aggressive accounting assumptions.
- Most importantly, due to other governance and accounting red flags, **Huron had an Accounting & Governance Risk (AGR®) rating of 3 on a scale of 100.** That put Huron in the worst 3rd percentile of all publicly traded U.S. companies – a ranking hard to ignore.

Using our services, I have put together a very short list of companies that have AGR characteristics not unlike Huron Consulting. This list consists of companies that have the following properties:

1. Low AGR.
2. Chairman and CEO roles are not split.
3. Ratio of CEO to CFO compensation is high.
4. Goodwill/Intangibles is high or growing.

<u>Short List of Companies with Potential Problems</u>						
<u>Company</u>	<u>Ticker</u>	<u>Market Cap</u>	<u>Price*</u>	<u>AGR Rating</u>	<u>AGR Percentile</u>	<u>Chairman/CEO Compensation</u>
PNC Financial Services	PNC	18,987.0mm	\$41.28	Very Aggressive	1	\$14,618,789
Manitowoc Company, Inc.	MTW	874.7mm	\$8.46	Very Aggressive	1	\$4,751,527
Tutor Perini Corporation	TPC	989.1mm	\$20.49	Very Aggressive	1	\$3,848,700
United Online, Inc.	UNTD	572.6mm	\$7.84	Very Aggressive	2	\$10,278,362
King Pharmaceuticals, Inc.	KG	2,583.1mm	\$10.70	Very Aggressive	3	\$6,966,232
Ashland Inc.	ASH	2,751.8mm	\$40.19	Very Aggressive	3	\$4,388,181
Solutia Inc.	SOA	1,383.7mm	\$11.82	Very Aggressive	3	\$5,897,482
Terex Corporation	TEX	1,843.6mm	\$17.86	Very Aggressive	5	\$11,794,758
Webster Financial Corporation	WBS	899.2mm	\$12.20	Very Aggressive	7	\$2,979,851
Republic Services, Inc.	RSG	9,756.7mm	\$26.56	Very Aggressive	8	\$8,394,237

*Closing price September 10, 2009. Source: Morninastar

Our AGR analysis is the beginning. Additional research by the stakeholder is required to determine the significance of issues raised by the statistical results. However, years of experience – years of crying “If only I had known” – prove that further analysis is warranted.

We will provide a more comprehensive list upon request. Contact Audit Integrity Support at (888) 44-AUDIT, or support@AuditIntegrity.com.

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