



Enough Already: Corporate Executives Pander as Markets Collapse

December 8, 2008

On December 2, the Wall Street Journal front page featured the CEO of Ford, Alan Mulally, announcing that he will take a \$1 per year salary if the U.S. taxpayers bail him out. His competitor in this disaster, General Motors CEO Rich Wagoner, agreed to do the same.

Of course the article does go on to note that Mulally had received nearly \$50,000,000 in compensation over the last two years. If we add in the \$1 for 2009, his average annual compensation for the three-year period comes to a mere \$16,666,667 per year (not including private jets and other numerous perks).

Mulally then says that Ford is rushing to launch an all-electric car and commercial van. Wow. While I am a strong proponent of auto efficiency, I can't imagine a worse financial plan than to rush production of electric cars in an environment of \$40+ per barrel of oil, and gasoline at \$2.00/gallon, well below the long-term inflation adjusted average.

Three days later I am bombarded with another picture, this time of Rich Wagoner (a very tall man), unfolding from a prototype Chevrolet Volt electric car. GM says they are working to get the price down to \$40,000 by the time the car becomes available to the public in 2010. I struggle to imagine the Chevy Volt as a competitive offering in today's or tomorrow's marketplace at a price point of \$40K. Like driving to Washington in a hybrid for the second Committee hearing, surely this gesture is too little, too late.

The Big Three are spending a great deal of their shareholders' money on public relations, trying to persuade lawmakers and the public to support the bailout. There is still no forward thinking on management's part. Meanwhile, as the Big Three flounder, the executives of these companies have flourished.

The pattern appears to be more endemic than even I had imagined. Our analysts reviewed the most recent Audit Integrity Investor WatchList and made this alarming discovery: of the 80 companies flagged on the list, all but 14 were found to have excess executive

compensation (defined as exceeding the compensation of 80% of your industry competitors), see attached list.

It is important to note that the WatchList is comprised of those companies that rank the worst in accounting and governance practices, and these practices inevitably impact the share price. In fact, the Investor WatchList return year-to-date shows a decline of 52.12%, far worse than the overall market, while executive compensation, on the other hand, goes up substantially year over year. In other words, the executives who are delivering the worst performance are collecting the highest compensation.

I can't say I wish Mr. Mulally and Mr. Wagoner continuing rewards at the taxpayers' expense, but I also caution any shareholders in companies of this ilk to think twice before they foot an expensive executive bill. Management should not walk away with huge rewards, leaving investors to absorb huge losses as these stocks collapse under the weight of executive abuse.

James A. Kaplan
CHAIRMAN

November Investor WatchList Including all Companies with Excess Compensation

Investor Watchlist Return Results

	YTD Return	TTM Return
Investor Watchlist*	-46.4%	-53.7%
Total Stock Market**	-29.0%	-33.6%

*unweighted returns rebalanced monthly, for all of the Investor Watchlist companies

**unweighted returns rebalanced monthly, for all of the 7000+ securities that Audit Integrity ranks with market capitalization of \$50+ b

Company Name	Ticker	AGR Score	Market Cap (\$MM)	Industry	Current Period Ending
Large Cap (\$5 Billion +)					
State Street Corporation	STT	6	\$ 18,780	Regional Banks	6/30/2008
eBay Inc.	EBAY	8	\$ 19,130	Retail (Specialty)	6/30/2008
Transocean Inc.	RIG	12	\$ 25,100	Oil Well Services & Equipment	6/30/2008
Juniper Networks, Inc.	JNPR	15	\$ 9,880	Communications Equipment	6/30/2008
The Procter & Gamble Company	PG	15	\$ 195,950	Personal & Household Prods.	6/30/2008
Apollo Group, Inc.	APOL	16	\$ 10,920	Schools	5/31/2008
QUALCOMM, Inc.	QCOM	18	\$ 60,620	Communications Equipment	6/29/2008
Hewlett-Packard Company	HPQ	19	\$ 95,070	Computer Peripherals	7/31/2008
Oracle Corporation	ORCL	20	\$ 93,710	Software & Programming	8/31/2008
Cisco Systems, Inc.	CSCO	23	\$ 100,800	Computer Peripherals	7/26/2008
Parker-Hannifin Corporation	PH	23	\$ 6,420	Misc. Fabricated Products	6/30/2008
Vulcan Materials Company	VMC	23	\$ 5,900	Construction Services	6/30/2008
Wells Fargo & Company	WFC	23	\$ 111,730	Money Center Banks	6/30/2008
The Home Depot, Inc.	HD	24	\$ 37,840	Retail (Home Improvement)	8/3/2008
MetLife, Inc.	MET	26	\$ 25,140	Insurance (Miscellaneous)	6/30/2008
Biogen Idec Inc.	BIIB	27	\$ 13,460	Biotechnology & Drugs	6/30/2008
Ingersoll-Rand Company Limited	IR	27	\$ 5,730	Misc. Capital Goods	6/30/2008
McDonald's Corporation	MCD	27	\$ 64,190	Restaurants	6/30/2008
General Mills, Inc.	GIS	29	\$ 22,550	Food Processing	8/24/2008
Applied Materials, Inc.	AMAT	30	\$ 17,400	Semiconductors	7/27/2008
Moody's Corporation	MCO	31	\$ 6,050	Business Services	6/30/2008
Cognizant Technology Solutions Corp.	CTSH	33	\$ 5,790	Software & Programming	6/30/2008
People's United Financial, Inc.	PBCT	33	\$ 5,910	S&Ls/Savings Banks	6/30/2008
Expeditors International of Washington	EXPD	38	\$ 6,870	Misc. Transportation	6/30/2008

Mid Cap (\$1 Billion - \$5 Billion)					
IAC/InterActiveCorp	IACI	16	\$ 2,320	Retail (Catalog & Mail Order)	6/30/2008
First American Corporation	FAF	17	\$ 1,920	Insurance (Prop. & Casualty)	6/30/2008
Popular, Inc.	BPOP	18	\$ 2,050	Regional Banks	6/30/2008
Alliance Data Systems Corporation	ADS	20	\$ 3,380	Computer Services	6/30/2008
Novell, Inc.	NOVL	20	\$ 1,620	Software & Programming	7/31/2008
Mylan Inc.	MYL	21	\$ 2,600	Biotechnology & Drugs	6/30/2008
Carlisle Companies, Inc.	CSL	22	\$ 1,350	Fabricated Plastic & Rubber	6/30/2008
Kansas City Southern	KSU	22	\$ 2,770	Misc. Transportation	6/30/2008
Computer Sciences Corporation	CSC	23	\$ 4,790	Computer Services	7/4/2008
Constellation Energy Group, Inc.	CEG	26	\$ 4,170	Electric Utilities	6/30/2008

November Investor WatchList Including all Companies with Excess Compensation

Company Name	Ticker	AGR Score	Market Cap (\$MM)	Industry	Current Period Ending
Mid Cap (\$1 Billion - \$5 Billion) cont'd					
Olin Corporation	OLN	26	\$ 1,400	Metal Mining	6/30/2008
CTC Media, Inc.	CTCM	27	\$ 1,090	Broadcasting & Cable TV	6/30/2008
Expedia, Inc.	EXPE	27	\$ 2,730	Personal Services	6/30/2008
Tiffany & Co.	TIF	29	\$ 3,120	Retail (Specialty)	7/31/2008
Gildan Activewear Inc.	GIL	31	\$ 2,850	Apparel/Accessories	7/6/2008
HealthSpring, Inc	HS	32	\$ 1,010	Insurance (Accident & Health)	6/30/2008
Lexmark International, Inc.	LXK	38	\$ 2,330	Computer Peripherals	6/30/2008
Reliance Steel & Aluminum	RS	38	\$ 1,910	Misc. Fabricated Products	6/30/2008

Small Cap (\$250 Million - \$1 Billion)					
Forward Air Corporation	FWRD	8	\$ 739	Trucking	6/30/2008
Ebix, Inc.	EBIX	13	\$ 256	Computer Networks	6/30/2008
Holly Energy Partners, L.P.	HEP	16	\$ 429	Oil Well Services & Equipment	6/30/2008
China Security & Surveillance Tech. Inc.	CSR	18	\$ 488	Security Systems & Services	6/30/2008
LaBranche & Co., Inc.	LAB	20	\$ 399	Investment Services	6/30/2008
Iconix Brand Group, Inc.	ICON	22	\$ 656	Apparel/Accessories	6/30/2008
Fair Isaac Corporation	FIC	23	\$ 752	Business Services	6/30/2008
TeleTech Holdings, Inc.	TTEC	24	\$ 627	Computer Services	6/30/2008
United Rentals, Inc.	URI	24	\$ 684	Rental & Leasing	6/30/2008
InfoSpace, Inc.	INSP	25	\$ 293	Computer Services	6/30/2008
The Pep Boys - Manny, Moe & Jack	PBY	30	\$ 252	Retail (Specialty)	8/2/2008
Alliance Imaging, Inc.	AIQ	37	\$ 415	Healthcare Facilities	6/30/2008
SkillSoft Public Limited Company	SKIL	41	\$ 827	Computer Services	7/31/2008
Tecumseh Products Company	TECUA	41	\$ 347	Misc. Capital Goods	6/30/2008

Micro Cap (\$100 Million - \$250 Million)					
NightHawk Radiology Holdings, Inc.	NHWK	14	\$ 132	Healthcare Facilities	6/30/2008
IMAX Corporation (USA)	IMAX	17	\$ 136	Motion Pictures	6/30/2008
AFC Enterprises, Inc.	AFCE	22	\$ 118	Restaurants	7/13/2008
Trico Marine Services Inc	TRMA	23	\$ 118	Oil Well Services & Equipment	6/30/2008
China Information Security Tech, Inc.	CPBY	25	\$ 188	Software & Programming	6/30/2008
BIDZ.com, Inc.	BIDZ	28	\$ 153	Retail (Catalog & Mail Order)	6/30/2008
Exactech, Inc.	EXAC	30	\$ 239	Medical Equipment & Supplies	6/30/2008
FirstFed Financial Corp.	FED	30	\$ 122	S&Ls/Savings Banks	6/30/2008
Spartech Corporation	SEH	36	\$ 190	Fabricated Plastic & Rubber	8/2/2008
The Princeton Review, Inc	REVV	38	\$ 186	Schools	6/30/2008

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