AMERICA'S BEST CEOS

Hail to the CHIEFS

Scandal. Fraud. Outrageous pay. Can American CEOs ever regain the public's trust? Here, in an exclusive survey, institutional investors and Wall Street analysts tell us which corporate chiefs most deserve our respect. • By Justin Schack

The late 1990s were a golden age for corporate chief executives.

To stock-market-mad investors, CEOs came to personify the fantastic gains of the period. Long rich and powerful, corporate supremos in the '90s became pop icons, complete with bestselling books and catchy nicknames like "Chainsaw Al" and "Neutron Jack." So compelling was the cult of the omnipotent corporate chief that a Harvard University MBA named George W. Bush scored points during his 2000 election campaign by pledging to be the "CEO president."

It will be a long time before an election turns on that phrase again.

JOHN CHAMBERS
Cisco Systems
Age: **53**
Year named CEO: **1995**
Number of employees: **35,000**
2002 stock performance: **–27.7 percent**
Annual salary: **$1***
Stock options: **$77 million****
What he says: **"All of us have to understand, if you take risk out of economic recovery, there will not be economic recovery."**
What one voter says: **"Once you meet John Chambers, you can't say no to him. He's that great a salesman. But he really has emerged as a true leader at a time when corporate America needs leaders the most."**

*For fiscal year ended 7/27/02.
**According to company filings; includes options exercised during last fiscal year plus unexercised options.

Once-lionized CEOs have been sullied by allegations of massive accounting fraud and brazen insider dealing. After a year of shredding documents, pleading the Fifth, taking perp walks and resigning in disgrace, CEOs as a class now inhabit the lowest rung on the ladder of public esteem, the one heretofore reserved for lawyers, used-car salesmen and — heaven forbid — journalists.

But more has been damaged than just the reputations of a few thousand extraordinarily wealthy people. The collapses of former highfliers like Enròn Corp., Global Crossing, Adelphia Communications Corp. and WorldCom have wiped out tens of billions in savings. And the recent adventures in accounting have cast a pall over the capital markets and, by extension, the world's biggest economy. Companies in the Standard & Poor's 500 index were on pace at year-end to generate a paltry 2 percent increase in profits for 2002, following a decline of 17 percent in 2001, according to First Call/Thomson Financial. Historically, companies in the index have grown earnings an average of 7 percent annually.

The S&P 500 itself fell nearly 25 percent last year — a wrenching third-straight annual decline. Cumulatively, some $7 trillion in paper wealth has disappeared since the market began its descent in April 2000.

"Investors are still distrustful of corporate America, and there's a portion of them who aren't coming back into the markets anytime soon," says Barbara Roper, director of investor protection at the Consumer Federation of America, a Washington-based advocacy group. "That, obviously, makes it significantly harder for the economy to rebound."

Psychological recovery may have to precede economic recovery. "There's a trust that was broken by certain companies, certain individuals," says Michael Dell, founder and CEO of Dell Computer Corp. "Now there's sort of a healing process that has to go on."

Some of the healing has begun, thanks to new legislation and regulations. But government policies can't guarantee proper corporate conduct, nor can they guide companies through hard times. Only strong managers can do that.

Indeed, honest and effective corporate leaders are more important now than ever — to their employees, to their shareholders, to the economy and to the country as a whole. It's up to them to steer through the current economic doldrums, restore investor confidence and help dissipate a lingering market malaise.

With that in mind, *Institutional Investor* set out last year to identify America's most impressive chief executives. We asked portfolio managers and securities analysts at major money management firms and investment banks who they thought were the best chief executives at the companies they followed or invested in. (The leaders in our inaugural ranking are shown sector by sector at right.) The winners include household names like Cisco Systems' John Chambers, who led all vote-getters, and Dell. But they also encompass CEOs like Cardinal Health's Robert Walter and Fifth

The BEST CEOs *by industry*

Listed here are the 26 executives, by industry, who scored the highest when we asked portfolio managers and sell-side equity analysts to choose the three top-performing CEOs in their domain.

Category	Name	Company
Aerospace & Defense Electronics	George David	United Technologies Corp.
Apparel, Footwear & Textiles	Paul Charron	Liz Claiborne
Applications Software	Steven Ballmer	Microsoft Corp.
Banks/Large-Cap	George Schaefer Jr.	Fifth Third Bancorp
Beverages	Steven Reinemund	PepsiCo
Cable	Brian Roberts	Comcast Corp.
Chemicals/Specialty	W. James McNerney	3M Co.
Cosmetics, Household & Personal Care Products	Reuben Mark	Colgate-Palmolive Co.
Data Networking	John Chambers	Cisco Systems
Health Care Technology & Distribution	Robert Walter	Cardinal Health
Insurance/Life	Daniel Amos	Aflac
Insurance/Nonlife	Maurice (Hank) Greenberg	American International Group
Integrated Oil	Lee Raymond	Exxon Mobil Corp.
IT Hardware/PCs	Michael Dell	Dell Computer Corp.
Medical Supplies & Devices	Arthur Collins	Medtronic
Multi-Industry	John Blystone	SPX Corp.
Oil Services & Equipment	James Day	Noble Corp.
Pharmaceuticals/Major	Henry McKinnell	Pfizer
Pharmaceuticals/Specialty	David Pyott	Allergan
Publishing & Information Services	Douglas McCorkindale	Gannett Co.
Retailing/Department Stores & Broadlines	H. Lee Scott Jr.	Wal-Mart Stores
Retailing/Specialty Stores	Edmond English	TJX Cos.
Satellite Communications	Charles Ergen	EchoStar Communications Corp.
Semiconductor Capital Equipment	James Morgan	Applied Materials
Semiconductors	John Gifford	Maxim Integrated Products
Telecom Services/Wireline	Ivan Seidenberg	Verizon Communications

Cisco's Chambers on CEOs, options and high tech

No single stock embodied the late 1990s bubble more than Cisco Systems. Shares of the data networking equipment maker rose — this is not a misprint — by 80,000 percent from 1990 through the market peak in early 2000. Three quarters of that climb occurred during the last two years of the decade, when Cisco became one of the most widely held and highly capitalized companies in the world.

Now that the bubble has burst, investors still believe in John Chambers, Cisco's CEO since 1995. They commend him not only for getting out of bubble-era telecommunications investments early and for being patient yet prudent about cutting jobs, but also for communicating openly and honestly with investors, even when most of the news has been bad.

"He'll shoot straight with you and say, 'This is the 100-year flood in our industry,' but at the same time, he'll say, 'Over the long term I still believe in this industry and in our strategy,'" says Michael Contant, a portfolio manager at Cypress Asset Management in Houston.

Chambers's opinions about how to regain the confidence of investors after devastating losses and embarrassing corporate scandals reflects the same balance of candor and optimism. He discussed the current environment in an interview with *Institutional Investor* Senior Writer Justin Schack:

Institutional Investor: How does it feel to be a CEO at a time when CEOs are so publicly reviled?

Chambers: It's been a very tough two years for investors, customers, employees and CEOs. I think you've got to not let the good times get you too high. And you've got to handle the tough times and not let them get you too low. Because as a CEO you've got 37,000 people in your company dependent on you here at Cisco; you've got millions of shareholders; you've got your customers, who've based a large part of their strategy and the future success of their company on your performance; and your job is to navigate through that. So I don't think the CEO's job is ever more important than during the tough times. I wish I could tell you they're fun. They're not.

What needs to be done to restore investor confidence?

It's very important not to overreact or underreact. As a country we tend to swing way past the middle to the extremes. The vast majority of CEOs are very honest. And I think what you've got to do is just get back to the basics. You want very open communications. You want to be realistic about what your opportunities are, realistic about where the challenges that can trip you up are, and you want to explain that to investors just like you would to your senior staff. I think it's also important for this country to do the same thing. We've got to deal with it very decisively but not fall into the trap of overreacting and doing something that two or three years from now we would very much regret.

What steps has Cisco taken to improve communication and corporate governance?

Most all of the recommendations of the New York Stock Exchange and the Nasdaq and others we were already doing. If anything, it just required very minor adjustments. We have instituted independent board sessions; that was something we thought was very important to do on a reasonably frequent basis. We have accelerated some of the information requests that people have had. We try to share with people what we're doing, and when we make mistakes — and we will — we will share with them what we will do to try to prevent it from happening in the future.

Another issue that's gotten a lot of attention and a lot of debate is, of course, whether to expense options. What are your opinions and your plans in this area?

If your goal is to control executive compensation, what happens [from expensing options]? No effect. And when you give out, particularly at Cisco, such a small percentage of your total option base to your senior management — 80 percent of our options go to the rank and file — the person who's going to get hurt is the average person. Suppose your second objective is to improve accuracy and transparency. So everybody rushes off to do Black-Scholes valuations on options. There's now a large consensus that realizes that Black-Scholes is not only ineffective but dramatically overstates the value of options. Now I'm not in any way advocating that no changes are needed. For those who want that information, you've got to show them what it would be. You ought to show what would be the full dilution of all outstanding shares. And shareholders ought to vote on every single plan. We've always done that here. But let's make sure that we don't rush in and change something that is so fundamental to the success of our future.

This is about ownership. You treat your house differently if you own it versus rent it. When was the last time you changed the oil in a rental car and washed it on the way to turn it in? It would be so easy for me to just give in on this, or for [Intel Corp. chairman] Andy Grove to just give in. In fact, you could actually argue that the biggest companies have a lot to gain if smaller companies can't use stock options effectively to challenge bigger companies. It's just wrong for the industry.

Do you think that the wealth that has been destroyed and the ill will that has been created in the bursting of the bubble will forever overshadow in the public consciousness all of the wealth creation and positive achievements of the 1990s?

No, I do not. Americans are remarkably resilient. Shareholders are remarkably resilient, and so is high tech. It's just like home prices. When they go up and when they fall, people learn how to adjust to that, and we learn what we do differently the next time through. The same thing will be true in this scenario. But I think that in the interim CEOs have to overcommunicate and be very responsive to the investing public. Again, I think that the key here is not to overreact or underreact. But I think that we will not look back and say, "Boy, we went too far on this," or that we took away the fundamentals to American investment in terms of ownership and CEOs taking risk. If you don't take risk, you don't have a recovery. And a lot of people forget that. And right now CEOs are the most conservative I've ever seen in my career. They're taking less risk than ever before, and that will absolutely inhibit the speed of the recovery and the American capability to outperform our counterparts around the world.

When will information technology spending and the tech sector finally turn around?

Until our customers' business improves, you will see them very cautious on spending. But as our customers' business returns, so will high tech. Government stimulus needs to really focus on keeping the consumer strong. Tax cuts should be accelerated, and perhaps even more for the middle class. One of the important lessons for high tech in all of this is that you've got to be able to tie your products to productivity. Technology for technology's sake is probably not only off the back burner but off the stove. Those segments of high tech that can't differentiate on this, it's going to be a much tougher market. So I do think you'll see a consolidation in high tech. I don't believe in the philosophy that 2003 is automatically going to be a very tough year. I think it's a very simple phenomenon: When customers' business turns up, GDP recovers, etc., you will see those segments of high tech that are truly tied to productivity turn up at a faster pace than many people anticipate. But I want to caution everyone that that is a minority view in various markets, and many of my peers disagree with that.

Third Bancorp's George Schaefer Jr., stellar executives who are not very well known to the general public — or even outside their own sectors.

Not that all of the picks enjoy unalloyed admiration. Maurice (Hank) Greenberg of American International Group has been criticized for having too many insiders on his board of directors. Citigroup CEO Sanford Weill, who finished a very close second to Schaefer in the bank sector and received the third-highest overall score, last year was drawn into the widening regulatory scrutiny of Wall Street research and IPO allocation practices. (Weill was not personally charged, however, in last month's settlement between regulators and investment banks [see Deals of the Year, page 34].)

What these top-rated CEOs do share is a talent for charting and executing their vision and openly communicating it to investors. In interviews with *II* several reveal how they're dealing with the toughest economic conditions in recent memory and a crisis in investor confidence that is at least in part the result of corporate misdeeds. Most agree that reforms are necessary but worry that government will overreact to the scandals and thereby inhibit future economic growth. Several of the top CEOs interviewed oppose accounting for employee stock option grants as a corporate expense.

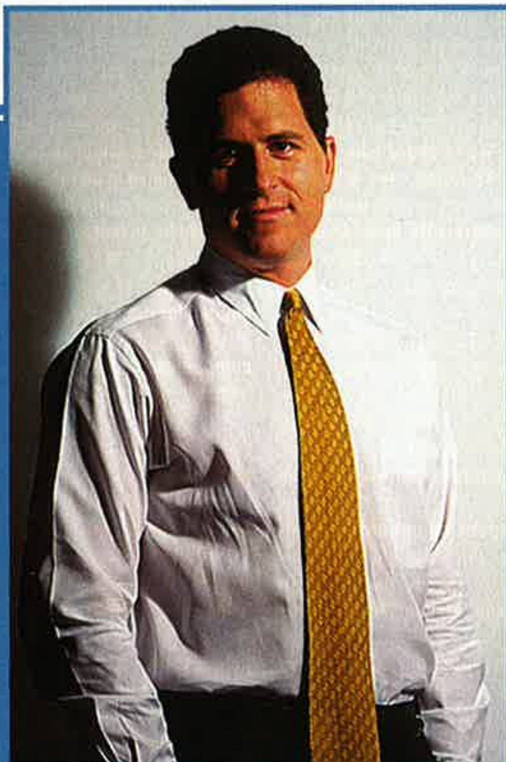
Dell credits his company's ability to steer clear of scandal to a communication network that encourages employees to blow the whistle on anything that doesn't look right. Called "ethics connection," the network provides a 24-hour, toll-free telephone line that any employee can use to anonymously raise red flags about corporate policies or simply ask questions. Dell also distributes a code of conduct to its employees around the globe — written in their native languages — that governs workplace behavior, interaction with customers and use of company resources.

"Things like judgment and respect, integrity, honesty — they don't necessarily have the same meaning in all cultures," explains Dell, who has been the computer hardware maker's only CEO since founding it in 1984 as a teenage college dropout (see box, below). "What we're doing is creating one Dell culture that's consistent, so that no matter where you are, the rules and the principles are the same."

Cardinal's Walter scored points with investors last fall by acting quickly to identify and correct questionable payments made by a unit of a company that Cardinal, a drug distribution concern, had agreed to acquire (see box, page 31). Similarly, when faced with informal regulatory scrutiny resulting from an error in Fifth Third's securities processing, Schaefer defused investor nervousness with calm, complete disclosure and an intensive internal investigation (see box, page 32). "He made it known to investors as soon as he found out," says one buy-side fan of Schaefer's. "A lot of others in his shoes might have tried to hide it."

Some CEOs are seeking to shore up investor trust by establishing presiding directors to oversee board sessions and ensure that members represent the interests of shareholders; corporate governance experts endorse the new board position as a way to impose proper checks on management. In May AIG's Greenberg appointed former NASD chairman Frank Zarb to such a post, which the insurer calls "chairman of the executive committee." General Electric Co. and Walt Disney Co. have made similar moves in recent months.

AIG has instituted a hotline that investors can "call and get any information they want," says Greenberg (see box, page 33). The insurance giant has also begun to conduct quarterly conference calls to go over financial results with investors. Previously, Greenberg would conduct only an annual "fireside chat" to discuss results with



MICHAEL DELL
Dell Computer Corp.

Age: **37**
Year named CEO: **1984**
Number of employees: **38,200**
2002 stock performance: **–1.6 percent**
Annual salary: **$1.3 million***
Stock options: **$203.6 million****
What he says: **"When you have 38,000 employees, it's not possible for one or two people to know everything that's going on. Everyone in the organization has to play a role in ensuring that the proper controls are in place."**
What one voter says: **"Dell is the only one who's been able to master the supply chain in the PC business. The guy just refuses to let anyone beat him."**

Technology spending is dead. Long live Dell.

Although competitors like Gateway and Sun Microsystems have struggled mightily with declining demand for PCs and servers, Michael Dell has been able to widen profit margins at the company he founded more than 18 years ago, while diversifying for the future.

Not only did Dell's sales rise nearly 30 percent in 2002 — when the rest of the industry's sales remained essentially flat — but the Round Rock, Texas, company has squeezed every last efficiency out of its supply chain and cost structure, helping to further boost margins during a tough period. Dell is also seeking to apply its low-cost magic to the market for printers and ink cartridges, making it less dependent upon big-ticket technology spending for growth.

"It's not just our job to succeed when things are going well," says Dell, parroting a mantra made popular inside the company by his president and COO, Kevin Rollins. "We're supposed to succeed all the time. Last year I think we showed that we can do that."

** For fiscal year ended 2/1/02.*
*** According to company filings; includes options exercised during last fiscal year plus unexercised options.*

shareholders. In September the company held an all-day meeting with hundreds of investors and analysts, making division heads available to discuss each part of AIG's business in depth, the CEO says: "We've been transparent as anyone else out there."

Institutional Investor selected the top CEOs by asking analysts and portfolio managers at the biggest money management firms the following question: Whom do you regard as the best CEO in the sector (or sectors) for which you are responsible? We asked the same question of every brokerage firm analyst who received votes in the magazine's annual All-America Research Team. Portfolio managers and securities analysts from more than 200 organizations responded, voting through September 2002.

Respondents were given the opportunity to name their first, second and third choices for best CEO, which were weighted to produce a final score for each candidate. Using the All-America Research Team's industry sector system, we named the top-scoring executive in each sector that qualified.

Many of the top vote-getters in the survey, like Chambers, Dell and Citigroup's Weill, also happen to be the beneficiaries of some of the most lucrative stock option grants in corporate America. Although the CEOs we interviewed are willing to acknowledge that options can lead to excesses, they unsurprisingly oppose drastic changes such as expensing options and thereby cutting into earnings. Doing so, they contend, would discourage the use of options and all but destroy the ability of many companies to motivate employees and encourage the extra effort, innovation and risk-taking that produce economic growth.

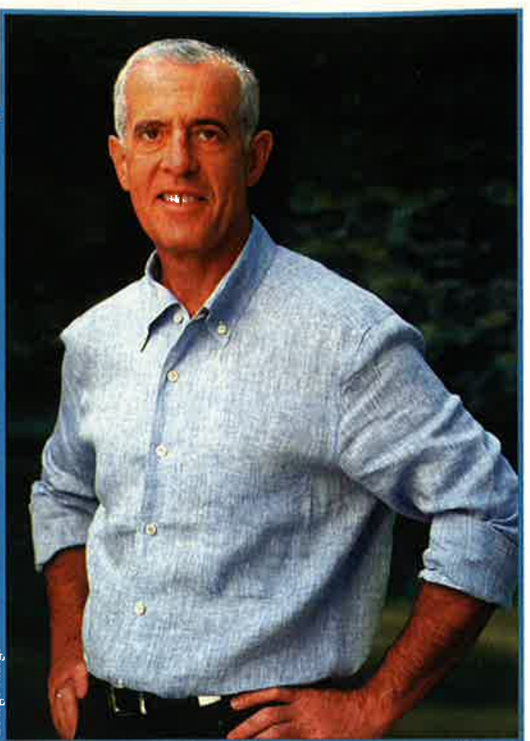
"This is about ownership," says Chambers. "You treat your house differently if you own it versus rent it. When was the last time you changed the oil in a rental car and washed it on the way to turn it in?" At Cisco 80 percent of stock options are granted to rank-and-file employees, the company says (see boxes, pages 27 and 29).

Moreover, executives like Chambers and Dell say that if options were expensed, the lack of an accurate standard for valuing options would only confuse investors about compensation costs. Dell's internal analysis, for example, shows that the widely used Black-Scholes model actually assigns the smallest value to options struck recently, at low stock prices, while judging that options struck at the height of the bubble, most of which are now underwater, are actually worth more. "If you look at a typical high-technology company over the past five years," says Dell, "what you'll find is that Black-Scholes is not a very good way to value options."

Even an old hand like Greenberg, who began expensing options at AIG last year, thinks it's a bad idea to require all companies to do so. "We've agreed to do it because it only costs us about a penny a share," he says. "But when you expense them, you really take a hit twice: once when you expense; then when it's exercised you take a hit to earnings per share. If you take start-up tech companies and new companies and say, 'Expense your options,' you're going to kill them. You'll simply kill them. They don't work on much salary to begin with. That's been a great incentive for entrepreneurial progress. If you're going to strangle entrepreneurs, they're going to go elsewhere."

Indeed, some argue that the combination of jittery equity and debt markets, new federal legislation mandating a host of boardroom reforms and continuing regulatory inquiries have corporate chieftains so afraid of making a false move that they

ROBERT WALTER
Cardinal Health


George Lange

Age: 57
Year named CEO: 1971
Number of employees: 49,000
2002 stock performance: –8.5 percent
Annual salary: $14.4 million*
Stock options: $82 million**
What he says: "I've had people tell me they bought my stock one quarter and then sold it the next. I mean, you feel like a prostitute. I tell them, 'You rented our body for 90 days. That's not what we're about. We're about long-term marital relationships here.'"
What one voter says: "He's methodical in the way he seeks out higher-margin opportunities that complement the core business. If you want to know how Cardinal has been able to produce 73 consecutive quarterly dividends, the answer is Bob Walter."

Since Bob Walter took Cardinal Health public in 1983, the stock of the drug distribution company has soared more than 6,000 percent, outperforming the Standard & Poor's 500 index by a factor of more than six. That kind of steady wealth creation has won Walter plenty of fans among institutional investors.

But it hasn't come without a few bumps along the road. Even though Cardinal continued to churn out double-digit earnings growth during the late 1990s, its stock flagged as investors all but ignored everything except technology and telecommunications companies. Since the bubble burst, however, Cardinal shares have come roaring back.

Despite the company's impressive gains, Walter has had his share of challenges of late. Last year he had to reassure frantic investors on a conference call that the company wasn't headed for an accounting blowup just because now-defunct Arthur Andersen had been its auditor.

He had to calm investor nerves again in November, after Cardinal learned that Syncor International Corp., a pharmacy services concern it had agreed to acquire, had made improper payments to employees of state-owned health care facilities in Taiwan through its overseas subsidiaries. Walter and his team investigated and discovered that the irregularities were minor and isolated from Syncor's main business. After explaining this to Cardinal's own employees as well as to investors, Walter is moving ahead with the deal.

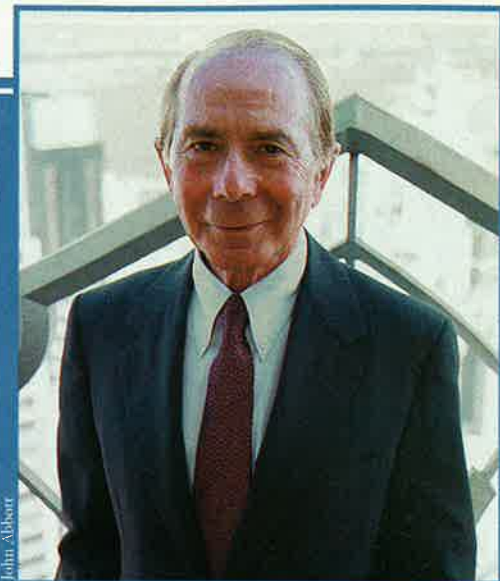
** For fiscal year ended 6/30/02.*
*** According to company filings; includes options exercised in last fiscal year plus unexercised options.*

are no longer making the calculated bets that ultimately drive profits and keep the economy humming.

"CEOs are the most conservative I've ever seen in my career," says Chambers. "They're taking less risk than ever before, and that will absolutely inhibit the speed of the recovery and the American ability to outperform our counterparts around the world. If you don't take risk, you don't have a recovery."

All this is not to say change isn't needed. Dell and Chambers already seek shareholder approval for options programs, and both men think such a policy should be adopted universally, with full advance disclosure to shareholders of how the plans would affect earnings. Cisco intends to show investors what its financials would look like if it did expense options, even though it opposes the policy. At AIG the firm's 650 top managers receive share allocations based on the company's performance. The shares are put aside until retirement. That, says Greenberg, counteracts the incentive that stock options can create for executives to focus merely on short-term stock gains, which critics say tempted many to cook the books over the past several years.

MAURICE (HANK) GREENBERG
American International Group


John Abbott

Age: 77
Year named CEO: 1967 (chairman and CEO since 1989)
Number of employees: 81,000
2002 stock performance: –27.1 percent
Annual salary: $1.1 million*
Stock options: $92.6 million**
What he says: "We have a very good culture here of being forthright. If it's good news, great. If it's not so good, we're not going to hide it."
What one voter says: "He knows to stick to the areas he is highly confident will be profitable — and he's always been proven right."

Not everyone loves Hank Greenberg. The septuagenarian CEO has come under fire from critics who complain that insiders wield too much power over his board of directors at insurer American International Group — more than a third of its members are company executives — and that he's failed to groom a successor.

But don't tell that to the people who own AIG shares. Despite a nearly 30 percent decline in 2002, a year when most insurers suffered, the stock has outperformed the Standard & Poor's 500 index by some 75 percent over the past five years.

Among the areas AIG has focused on recently is liability insurance for corporate directors and officers. Although controversial, it's in demand and highly profitable compared with more-commoditized products, like automobile insurance. "We're a very focused organization," Greenberg says. "We pick the businesses we want to be in very thoughtfully."

As for his critics, the CEO says that they're missing the point: "We have a majority of outside directors. People like [Harvard University economist Martin] Feldstein, [former U.N. ambassador Richard] Holbrooke. These are pretty independent people of substance. We have an independent nominating committee, audit committee, compensation committee. Yes, we have a number of insiders on the board. But they own 25 percent of the stock of AIG. Why shouldn't they be represented on the board?"

* *For fiscal year ended 12/31/01.*
** *According to company filings; includes options exercised in last fiscal year plus unexercised options.*

Such behavior today would be much harder to pull off. "Associated with the bubble in the economy in the late '90s and early 2000, you had a bubble in compensation," says Dell. "And that's all being adjusted now based on market factors and market forces. The markets are forcing transparency. The kinds of things that would pop out as questionable are getting a lot of scrutiny now by investors, irrespective of regulation. I don't think you'll hear a lot of investors saying, 'We're just going to trust the regulations.'"

Even the staunchest supporters of government intervention to correct market abuses concede that reformers should be careful not to do more harm than good. "The majority of corporate leaders, who have not committed fraud and played accounting games and lied to shareholders, are paying a pretty heavy price for the wrongdoing of a fraction of them," says the CFA's Roper, whose organization strongly supported such reforms as last year's Sarbanes-Oxley Act, which created an independent board to oversee corporate audits and required CEOs and CFOs to sign off on their companies' financial statements in filings with the Securities and Exchange Commission.

In the end, it will be CEOs like those on our list — people like Chambers, Dell, Walter, Greenberg and Schaefer — who must take the lead in healing the wounds to investor confidence and, by extension, to the economy. Investors, at least, think that the rest of corporate America would do well to follow their example. ii

GEORGE SCHAEFER JR.
Fifth Third Bancorp

Jim Callaway

Age: 57
Year named CEO: 1990
Number of employees: 20,500
2002 stock performance: –4.5 percent
Annual salary: $2.8 million*
Stock options: $77 million**
What he says: "If you take care of your people," he told *II* in July 2001, "whether they're soldiers in Vietnam or bankers selling checking accounts in Chicago, then they'll do a marvelous job for you."
What one voter says: "He's the one CEO who gives me the ability to sleep at night."

He's the CEO that no one knows, running the most successful bank that no one has ever heard of. But through a string of acquisitions in the 1990s, George Schaefer has grown Cincinnati-based Fifth Third Bancorp from a sleepy regional into the 13th-largest bank in the U.S.

Lately, the highly decorated Vietnam War veteran has dealt adroitly with concerns about the company's financial controls.

In September the bank took an $82 million charge against third-quarter earnings to offset losses stemming from a reporting error in its securities portfolio. The Securities and Exchange Commission and the Federal Reserve Bank of Cleveland are investigating Fifth Third's internal controls. And the Cleveland Fed has put Fifth Third's pending acquisition of Franklin Financial Corp. on hold until the inquiry is complete.

Though not required to disclose the Fed investigation or the deal moratorium, Schaefer did so in the interest of full transparency for investors. Last month Fifth Third said that it had hired an outside firm to conduct an extensive review of the matter and concluded that the losses stemmed from mistaken booking of proceeds from mortgage securitizations in an account that handled U.S. Treasury securities, and that the episode involved no customer funds.

Regulators are still conducting "informal" probes. But investors, satisfied that the situation resulted essentially from an honest mistake — and impressed with Schaefer's handling of it — have bid the company's shares back up to near preannouncement levels. "You can't question the man's moral compass, and there's never been a greater need for honest leaders than there is now," says one buy-side fan. "He made it known to investors as soon as he found out. A lot of others in his shoes might have tried to hide it."

* *For fiscal year ended 12/31/01.*
** *According to company filings; includes options exercised in last fiscal year plus unexercised options.*