



## **BUSINESS WIRE**

### **Related-Party Transactions Still Common Practice among S&P 500 Companies, Study Reveals**

December 3, 2004

So-called "related-party" transactions, which have figured prominently in some high profile corporate meltdowns in recent years, continue to be pervasive among companies in the S&P 500, according to a study released today by RateFinancials, an independent risk research firm.

Based on a comprehensive analysis of proxy statements, RateFinancials estimates that nearly 40% of companies in the S&P 500 have business arrangements with parties that have material ties to the corporations or their managements. The related-party arrangements involve a wide gamut of relationships, ranging from directors whose law firms receive millions of dollars in fees to office or other leasing arrangements with entities controlled by CEOs or their immediate families. Not surprisingly, related-party transactions are typically buried deep within a company's proxy statement and are often overlooked by investors.

Although most related-party transactions are legal, they have figured prominently in several high-profile corporate scandals in recent years, including Enron, Adelphia, WorldCom and HealthSouth. More recently, insider deals have been flagged at Marsh & McLennan and Krispy Kreme.

"A significant number of S&P companies continue to ignore the growing outcry for improved corporate governance and actively engage in related-party transactions," said Victor Germack, founder and president of RateFinancials. "Although related-party transactions do not necessarily involve any legal wrongdoing, they insert conflicts of interest into a company's corporate governance where none needs to exist. Most of the arrangements were almost always avoidable and therefore appear to raise legitimate questions about whether company insiders are putting their own interests ahead of shareholders."

One of the most common related-party arrangements involves the hiring of an advisory firm with ties to executives or directors. For instance, Teco Energy retains Ausley & McMullen, the law firm of director DuBuse Ausley. Teco has paid the firm \$3.4 million over the last three fiscal years.

RateFinancials also found several deals that were beneficial to company insiders' family members. This included an arrangement at the clothier The Gap. One of the firm's general contractors for store construction, Fisher Development, is owned by the Chairman's brother. Until fiscal year 2002, this construction firm was the primary non-exclusive contractor for The Gap. This relationship has been worth several million dollars to Fisher.

Other arrangements appeared to directly enrich a company's top level executives. Best Buy leases two stores from its chairman. Combined rent on these two stores was approximately \$950,000 for the fiscal year ended February 28, 2004.

Some other prominent companies identified by RateFinancials as being involved with related-party transactions include: Albertsons, AMR, Archer Daniels Midland, Bear Stearns, Clear Channel Communications, CVS, Dell, General Dynamics, Leggett & Platt, MBNA, Safeway, Toll Brothers and Winn Dixie.

For its study, RateFinancials closely examined the filings of companies representing nearly half the market capitalization of the S&P 500, representing nearly every major industry.

#### About RateFinancials

RateFinancials Inc. is a New York-based, independent risk research firm that rates and ranks the financial reporting of the largest U.S. public companies based on their SEC filings, such as 10-Ks, 10-Qs, 8-Ks and other filings. RateFinancials tests for accounting integrity and governance. The firm's ratings examine financial reporting, quality of earnings and corporate governance. RateFinancials does not usually speak with company management, as the firm believes the financial reports must speak for themselves. RateFinancials does not make earnings estimates or provide any investment recommendations. The firm was founded in 2002 by experienced investment bankers and equity research analysts, many of whom are Chartered Financial Analysts. For more information visit: [www.ratefinancials.com](http://www.ratefinancials.com).