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America's Most Trustworthy Companies

By Jacquelyn Smith, Forbes Staff

ver the last few years, corporate scandals, bailouts, and bankruptcies have greatly damaged investors' trust in some of the country's largest public companies. However, even today, many corporations are models of openness and integrity.

We set out to identify the most transparent and trustworthy businesses that trade on American exchanges. In the past, *Forbes* turned to Audit Integrity, an independent financial analytics company in Los Angeles. Audit Integrity recently merged with the Corporate Library and GovernanceMetrics International to form GMIRATINGS (GMI).

"What these companies have in common is what they *don't* have: problems that indicate elevated risk," says GMI Chairman James A. Kaplan. "Those problems can range from high executive compensation or incentives that are not aligned with shareholder interests to inconsistent application of accounting principles, or the occurrence of negative events."

GMI's quantitative and qualitative analysis looks beyond the raw data on companies' income statements and balance sheets to assess the true quality of corporate accounting and management practices.

For the fifth year, GMI has provided Forbes with a list of companies that are at the other end of the spectrum from the beleaguered firms that make so many of today's headlines. GMI finds that its 100 Most Trustworthy Companies have consistently demonstrated transparent and conservative accounting practices and

solid corporate governance and management. They do not play games with revenue and expense recognition, or with asset valuation.

GMI's evaluation penalizes companies for unusual or excessive executive compensation, high levels of management turnover, substantial insider trading relative to their corporate peers, or high levels of short-term executive compensation, which encourages management to focus on short-term results. Good housekeeping practices leave companies better prepared to handle financial turmoil, which is crucial during tough economic times. The absence of negative events counts as much as the existence of positive events.

To create the list, GMI examines more than 8,000 companies traded on U.S. exchanges. Every three months it assigns each company an accounting and governance risk score, or AGR, based on proprietary modeling designed to identify practices that historically have had a high correlation with increasing shareholder risk.

GMI rates the 15% of companies in its universe with the highest AGR scores as "conservative" and the 10% of companies with the lowest scores as "very aggressive." Companies in between those extremes are rated either "average" or "aggressive." "Companies ranked in the bottom 10% are at the greatest risk of litigation, restatements, and other negative events," says Kaplan.

GMI claims that it has established a direct correlation between its AGR assessments and the likelihood of negative events such as class-action litigation,

Securities and Exchange Commission enforcement actions, financial reporting delays, bankruptcy filings, and poor stock price performance.

As in previous years, GMI has sorted its 100 Most Trustworthy Companies into three groupings, according to market capitalization. In this year's crop, three small-cap companies received the highest current AGR score, 100. The two mid-caps to come closest were Entegris, a major provider of semiconductor fabrication materials, and Mueller Industries, a manufacturer of copper, brass, plastic, and aluminum products. Each scored 99. The highest scoring large-cap company was the insurance firm Cincinnati Financial, with a current AGR score of 97.

To qualify for the roster, the 100 companies all had to have market caps of \$250 million or more at the time GMI prepared the list (March 13, 2012). Over the last four quarters the companies must have maintained AGR ratings of "conservative" or "average," and had no amended filings with the Securities and Exchange Commission, no SEC enforcement actions, and no material restatements. They also had to rank high in GMI's Equity Risk Ranking, which indicates a positive forecast for equity returns, and have minimal likelihood of financial distress as measured by GMI's Bankruptcy Risk model.

"Many studies have shown that well-governed companies with transparent accounting have a higher price premium than their competitors, reduced cost of capital, and a higher long-term return for shareholders," Kaplan says.

America's Most Trustworthy Companies



Telephone & Data Systems

Market Value: \$2,688 million Current AGR Score: 98

Average AGR Score (last four quarters): 99

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Mid-Cap

Company* Telephone & Data Systems	Current AGR score (as of 3/13/12) 98	Average AGR Score (last four quarters) 99	Market value (\$M) 2,688
Mueller Industries	99	97	1,801
Northwest Bancshares	98	95	1,230
International Bancshares	96	94	1,350
Eastgroup Properties	97	93	1,393
BP Prudhoe Bay Royalty Trust	93	92	2,651
Glacier Bancorp	94	92	1,071
Patterson Cos	93	92	3,490
Owens & Minor	94	91	1,919
PriceSmart	98	91	2,083

^{*} This is only a portion of the Forbes Most Trustworthy Companies (Mid-Caps) ranked according to the Average AGR Score (last four quarters). Source: GMI

Highlighting added for emphasis.

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