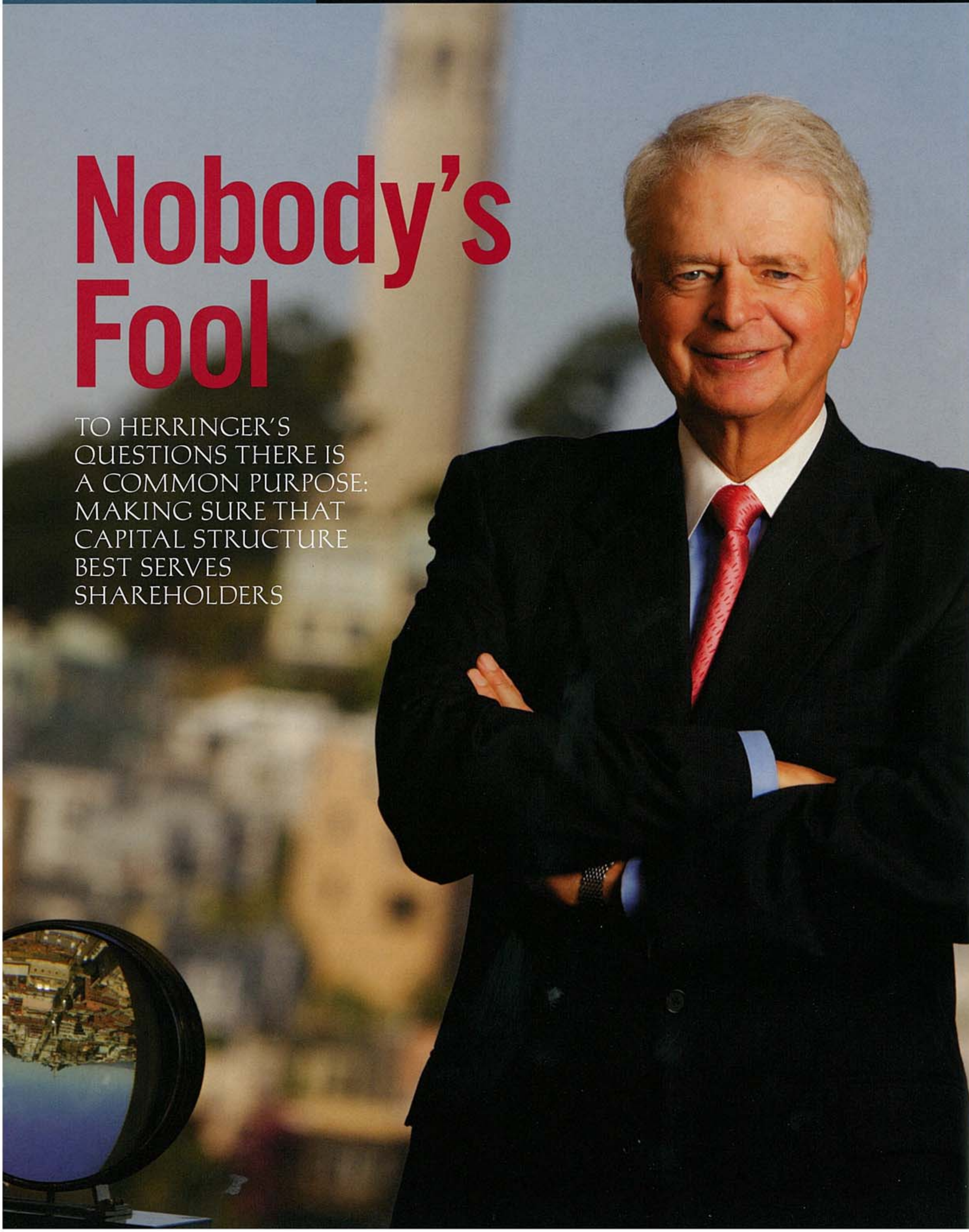
Nobody's Fool

TO HERRINGER'S QUESTIONS THERE IS A COMMON PURPOSE: MAKING SURE THAT CAPITAL STRUCTURE BEST SERVES SHAREHOLDERS



BY DOLLY SETTON

"You're not going to blow by Frank with anything." So says AT&T CEO David Dorman about Frank Herringer. That's because Herringer is a master at zooming in. Beneath a genial demeanor — and inside the soul of a dedicated golfer — lies a tenacious nature. "Frank can sort through detail and find the essence," says Chuck Schwab, CEO of Charles Schwab & Co. "We were always afraid of what he was going to ask," grins Unocal CEO Chris Williamson. "He zeroed in on the critical issues and asked me difficult questions at the right time."

That ability to consistently focus on the heart of the matter is what distinguishes former Transamerica CEO Herringer in the boardroom. A "Type B" personality with a straight-A mind — he graduated first in his class from Dartmouth's Tuck School of Business — Herringer poses questions with an unflappable equanimity that influences rather than alienates those who disagree with him. And he'll keep zooming in on those questions, meeting after meeting, until he gets the answers he wants.

Case in point: As a director of Pacific Telesis in 1996, Herringer's questions helped lead to the company's putting itself up for sale — at a 40% premium over market. At the time, the landscape of telecommunications was changing swiftly. It had been 10 years since the breakup of the Bells. The FCC, as expected, had just passed the Telecom Act, deregulating the market. It was clear that wireless was a new major competitor and that there was a broader market, so the FCC was open to mergers as it hadn't been before.

The challenge before Pacific Telesis, holding company for Pacific Bell and Nevada Bell, loomed large. PacTel was basically serving only California, and in this changing market, scale counted more. At the same time, the company had moved into video, cable and wireless, with ambitious plans for further expansion in these high-growth businesses. On the wireless front, PacTel had spun off AirTouch Communications in 1994 and had been building its own wireless network to compete with AirTouch and GTE in California. Like the other growth initiatives, this consumed a lot of capital at a very rapid rate.

Herringer joined the board in 1994 and soon zeroed in on a strategic contradiction about the future direction of the company. The dividend was 90% of earnings, and as chair of the finance committee, Herringer was responsible for approving it. His question: Was management going to be satisfied with being a solid income-producing business or would it bet on all the growth initiatives?

"Frankly, he was pretty confrontational," says David Dorman, CEO of AT&T, who was CEO of Pacific Bell at the time. "His view was, you're paying a huge dividend, but you're spending a lot of money on capital, and you can't do both. You can't say you're a growth company and say you are investing for growth, and then pay out 90% of your earnings. His attitude was, 'I'm not going to continue to approve this kind of dividend. You've got to bring us another plan.'"

Over a six-month period Herringer consistently zeroed in on cash flow. Management adhered to a traditional widows-and-orphans utility mentality and was reluctant to cut the dividend. It feared a tremendous shareholder revolt. Herringer argued that a second group of shareholders were buying for growth. "His view was, let's look at getting into a bigger, broader portfolio that would give shareholders broader exposure to the telecom market," recalls Dorman.

Eventually, management's position evolved in this direction. Herringer then chaired a special committee on the sale. CEO Phil Quigley negotiated an agreement in which PacTel was sold to SBC at a 40% premium over the market on April 1, 1997 — a good deal for shareholders, especially given PacTel's capital issues. The stock was up another 40% within a year. Dorman took special note. Recalling Herringer's piercing questions on the PacTel board six years before, he nominated Herringer in 2002 to serve on the AT&T board.

"He's able to voice differing opinions from management in a constructive way, not a conflict-creating way," explains Kevin Sharer, CEO of Amgen. Sharer sat on the Unocal board with Herringer, and speaks from experience. When Unocal CEO Roger Beach unexpectedly announced he would be resigning in 2001, Herringer zeroed in on the existing succession plan. "There was a difference of opinion," says Sharer. At the time Unocal was moving away from domestic oil discovery and putting more emphasis on its high-growth and more profitable international operations. Williamson. now CEO, was head of international operations and had served in Thailand, one of Unocal's most important money producers. Herringer and fellow director John Ammerman, former CEO of Mattel, believed Williamson's broad experience at the company made him a better choice.

"There was a succession race, and though it's easy for me to say since I was the first choice, it was well managed. The other candidate stayed on," says Williamson. Analysts are bullish on the company under Williamson, who is continuing an important strategic shift begun by his predecessor. "The decision was confirmed by the results," Sharer concludes.

At Schwab, considered a model of

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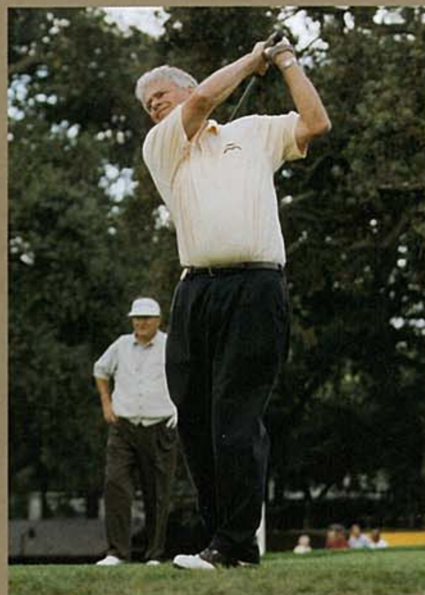
CHRIS WILLIAMSON • CEO • UNOCAL

FRANK C. HERRINGER Director's Snapshot



BORN: Nov 12, 1942, in Brooklyn, N.Y.

EDUCATION: B.A., Dartmouth College; M.B.A. Amos Tuck School of Business Administration at Dartmouth

CAREER HISTORY: Chairman and former CEO Transamerica; CEO, San Francisco Bay Area Rapid Transit District (BART); administrator, U.S. Urban Mass Transportation Administration (UMTA), member of White House Staff

HOMETOWN: San Francisco, Calif.

FAMILY: Married to Maryellen Cattani Herringer for 19 years; three children, one grandchild

BEST SUMMER JOB: "The most fun summer job was being disc jockey. But the best job in terms of giving me a perspective on life was being an elevator operator."

BEST BOOK READ THIS YEAR: *Fooled by Randomness*, by Mark Wainwright, "a must read for every CEO."

FAVORITE QUOTATION: "It ain't over til it's over." Why? "You never know what's going to happen at the next hole. You can get a hole in one!"

FAVORITE ARTIST: Richard Diebenkorn. "We collect contemporary art and he has done this wonderful series called the Ocean Park series and we're fortunate enough to have one of those."

CURRENT CORPORATE BOARDS: Charles Schwab, AT&T, Amgen

corporate probity, Herringer has been chair of the governance committee for several years. "Schwab has stellar reporting controls," says Morningstar analyst Mike Ford-Taggart. "Its regulatory filings go above and beyond... There has been no aggressive accounting. Directors have a lot of ownership. And the way that [Schwab] allows proxy votes is very shareholder friendly."

As for Schwab's strategy, the financial services giant has been widely criticized for buying US Trust in 2000 at a 66% premium, a deal Herringer says he supported given the market conditions at the time. But Herringer also helped Schwab avoid some bad deals, according to fellow Schwab director Steve McLin, CEO of mergers and acquisitions advice firm STM Holdings.

As lead director of Schwab, he also played a key role in its recent management change. After several years of flailing earnings and a diving stock price, the board fired CEO David Pottruck in July 2004. Chairman Chuck Schwab, who owns 22% of the company, had hand-picked Pottruck as his right-hand man and successor. The last straw to Herringer and others was when Pottruck put a business on the market that he had bought just six months earlier, without informing the board. Says Schwab: "Frank is adequately flexible but stalwart in his views."

Herringer's reliance on posing questions rather than stating his different view outright is a conscious method that is central to his effectiveness at challenging management. He says he learned this approach from his six years as a management consultant, where he observed the art of questioning practiced by the senior partners with whom he worked closely.

"Because there it's a service business, you don't go far irritating your clients by showing them how smart you are," Herringer says. "You ask a couple of questions that make the other person realize what the direction should be or the answer should be, as opposed to saying this is the right answer, let's move on."

The second important, but less noticed, component of Herringer's approach is a strategic listening technique. "Another thing I do is that I don't talk in a situation that would normally require a response by me or a comment by me. Sometimes I just don't say anything. It makes people very uncomfortable and they say things to fill the gap that can be very revealing."

To Herringer's questions there is a common purpose: making sure that capital structure best serves shareholders. "If there were excess capital," Herringer says, "I would ask 'Why are you not giving this back to the shareholders in the form of stock buybacks?' At PacTel, it was the same issue in reverse." The record of dividends and buybacks at AT&T and Schwab, which undertook a $500 million buyback program announced at the end of 2001, bears this out.

Herringer's focus is not surprising given his record as CEO of Transamerica. There he pursued a shareholder-friendly program through share repurchases and shedding underperforming units. The company bought back more than 25% of its stock from 1993 through 1999. In 1999, he sold Transamerica to Dutch insurer Aegon NV for a 35.4% premium. "We were too small, I felt, to be really competitive in the long run, and we ultimately were going to link with somebody," Herringer says. The timing was right. The deal was done at close to the top of the market. O