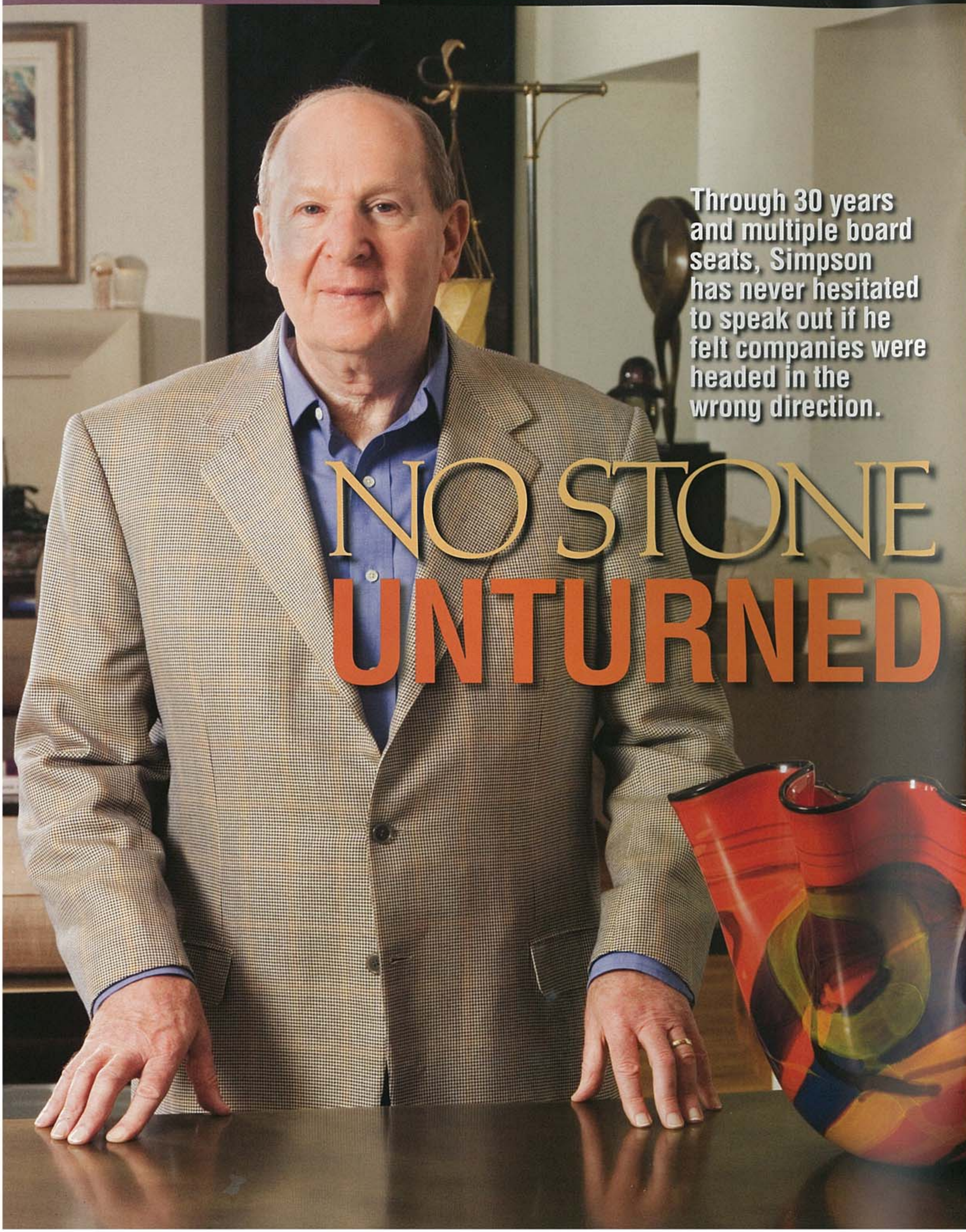
NO STONE UNTURNED

Through 30 years and multiple board seats, Simpson has never hesitated to speak out if he felt companies were headed in the wrong direction.



BY HEATHER WOLF

Long before we had Sarbanes-Oxley, we had Lou Simpson," says three-time fellow director Tom Young. Young has served with Simpson at Potomac Electric Power, Salomon Brothers, and Science Applications International Corporation (SAIC). "Lou has raised the standard of boards and management everywhere."

By everywhere Young means not just their three boards in common but those of more than a dozen publicly traded corporations spanning thirty years and many industry sectors. Colleagues admire Simpson for his steady, long-term, "stay-the-course" approach to success and his dogged determination to root out weakness, and they say he has contributed to every aspect of corporate governance.

As President and CEO Capital Operations at Berkshire Hathaway-owned GEICO Corporation for the past 27 years, Simpson is in the inner sanctum of one of the most successful and admired management teams in American corporate history. "You only need to read what Warren [Buffett] has to say about Lou to know how good he is," says Sam Butler, retired partner at Cravath, Swaine & Moore LLP and former non-executive chairman of GEICO. Buffett has named Simpson as a potential successor.

Young recalls an instance on the SAIC board when Simpson was on the audit committee and mentioned at a board meeting that he wanted to look into a particular item. The long-serving CEO said he did not think it was necessary. "Lou said, without missing a beat, 'Anything a CEO doesn't want me looking into is exactly what I want to look into,'" recalls Young. From there, the relationship went from bad to worse as Simpson pushed for a succession plan which was blocked at every turn by the 80-year-old founder. Eventually Simpson resigned in frustration in 2002. But his resignation served as a catalyst, and by 2003 a succession planning program was in place.

Bill Roper, executive vice president in charge of Strategic Developments at SAIC, describes Simpson as "the best outside board member the company has ever had" and credits him with guiding one of the single most important financial decisions in the company's history.

SAIC held a very large position in a highly volatile security, and the board, although uncomfortable with the exposure, could not come to a hold-sell decision. Simpson, lending his sophistication in the financial sphere, devised a hedging strategy that was implemented through an intermediary. Although designed to straddle the risk-reward equation, the hedge won big on both sides, ultimately earning the company around $1 billion and losing nothing.

In the ultimate corporate compliment, in mid-2006 Simpson was asked and agreed to rejoin the SAIC board under its new leadership. Although he will only serve one term before bumping up against the director age limit, lead director Young says, "Two years of Lou is equivalent to a lifetime of anyone else."

Simpson's career as an independent director has also seen a sequence of three relatively brief but notable stints on telecommunications boards. The trifecta began when USWest was planning to spin off its growing cable business with Chuck Lillis at the helm of what would become MediaOne.

When looking to put together his new board, Lillis recalls asking the three largest institutional shareholders for their top recommendations for board members. Two of them independently identified Simpson. "Lou was what I call a pure economic investor. He was incredibly disciplined about our returns and the cost of those returns. I can say that Lou was the best representative of shareholders on the board," says Lillis.

This was particularly useful in 1999 when rival Comcast put an unsolicited all-stock offer on the table. "There was a certain desire to liquefy paper wealth while the getting was good," Simpson recalls. "I think I helped slow the process down."

In the interim, AT&T came in with an even higher offer. The deal called for a MediaOne director to join the AT&T board, and Simpson agreed to take on the seat in 2000. What he found when he got there was an eye-opener. "It was a tougher business than I imagined and deteriorating faster than I ever could have imagined!" he exclaims. Simpson was given the role of finance committee chair where he discovered that, owing to a massive amount of short-term debt and ratings downgrades, AT&T was at the brink of bankruptcy.

Ma Bell had paid a punishing $110 billion for MediaOne and Tele-Communications, Inc. (TCI), and the broadband business was still lagging its industry peers. Despite the harsh realities, AT&T Chairman and CEO Michael Armstrong was holding on to his plan of breaking the company into four independent entities. They had just spun off AT&T Wireless and, unrealistically according to Simpson, were talking of doing the same with the broadband business.

When Comcast came with a mere $58 billion offer for AT&T's broadband business in 2001, Simpson felt strongly that it be vigorously pursued for survival. During due diligence, he pushed to open the bidding up to other potential buyers. They entertained several compet-

YOU ONLY NEED TO READ WHAT WARREN {BUFFETT} HAS TO SAY ABOUT LOU TO KNOW HOW GOOD HE IS...

SAM BUTLER • FORMER NON-EXECUTIVE CHAIRMAN, GEICO

BORN: December 23, 1936, in Chicago, Ill.

EDUCATION: BA in economics and accounting, Ohio Wesleyan; MA in economics, Princeton University.

CAREER HIGHLIGHTS: President and CEO Capital Operations, GEICO Corporation; CEO Asset Management, Western Bancorp; various investment management positions.

HOMETOWNS: Chicago, Ill. and Tucson,Ariz.

FAMILY: Married to Kimberly for nearly six years; 3 sons, 4 grandchildren.

MOST MEMORABLE SUMMER JOB: Helper on a liquor distribution route throughout Chicago

MOST RECENT BOOKS READ: *Freakonomics* by Steven D. Levitt and Stephen J. Dubner; *The Devil in the White City* by Erik Larson.

FAVORITE ARTISTS: All the impressionists, particularly Vincent van Gogh.

FAVORITE CHARITIES: Various schools and educational ventures.

SOMETHING MOST PEOPLE WOULD BE SURPRISED TO KNOW ABOUT ME: "There's more to me than stocks and financial markets!"

WON'T LEAVE HOME WITHOUT: Pen and eyeglasses.

FAVORITE QUOTATION: "If you don't know where you are going, you will wind up somewhere else." Yogi Berra.

CURRENT PUBLIC COMPANY BOARDS: VeriSign, Science Applications International Corp. (SAIC).

ing offers but Comcast prevailed.

Simpson fully intended to resign from the board once the deal went through in 2002. But during negotiations he ran into Comcast's father and son leadership team, Ralph and Brian Roberts, at Paul Allen's conference in Sun Valley. Dave Dorman, AT&T president at the time, reports that "Roberts convinced Simpson to join the Comcast board, and Lou agreed to help get the deal done."

Ever the guardian of best practice, Simpson pushed hard at Comcast for separate meetings of the independent directors at every board meeting. While standard practice on many boards, it had never been done at Comcast and took many months of persistent persuasion to be accepted by Roberts.

"Lou was a fantastic, strategic director," Brian Roberts, now chairman and CEO of Comcast, says of Simpson's one and one quarter years on the Comcast board. "He has a very long-term perspective and always looked out for the company."

Nevertheless, Simpson abruptly resigned from the Comcast board when it began to formulate its unsolicited bid for The Walt Disney Company. Not only did he think it was a bad idea and that they would not get it, it rubbed against his Berkshire Hathaway grain.

"At Berkshire Hathaway we have always believed that you see and get more interesting things with the friendly approach," says Simpson, describing the company's long-standing practice of avoiding hostile activity. In the end, his comments proved prescient. The bid collapsed.

Nothing drives Simpson crazier than being in the wrong business for the wrong reason. He fought tooth and nail to get Pepco out of the aircraft leasing business. "All they had to show for it was a good tax write-off," he laments. Young adds that Simpson found the business, consisting of 33 aircraft at its peak, to be over-valued on the books and insisted that there was no real economic value in continuing, particularly when competitors GE and AIG monopolized the best aircraft and lessees. Simpson spearheaded the move to properly value the business and then exit it altogether, allowing Pepco to redirect capital into its growing telecommunications business.

Conversely, no one is better at knowing when to stay the course when it is appropriate. There was a time in 2005 when VeriSign was considering giving up on an Internet communications business that was experiencing softness. Roper, as lead director, describes Simpson's typical steady-handed guidance: "Never one to follow short-term trends, Lou assured us that, if we are getting good answers to good questions, the right thing to do is hang in there." Do we have a good strategy? Have the fundamentals changed? Are there any "deal-breakers" in the market? Do we support the management team? "When everything came up positive, we hung in there," says Roper. "The business is now back on track and we are very happy we stuck with it."

Every boardroom situation—the people, the businesses, the issues—holds a special place in Simpson's heart. Whether the tenure was long or short, successful or tumultuous, he speaks of his time on every board with love for the richness it has added to his life. "My main gift is to bring a rigorous process for allocating capital," says Simpson.

But there is more to the man than dollars and cents. Simpson is an avid art collector, inveterate hiker, and dedicated philanthropist. After years in Southern California, Simpson finds himself back in his hometown. He and his wife Kimberley, a native Texan and chemist, are settling into a new life in Chicago, and already deep into local causes including a major project to improve public schools. O