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The $1.8 Billion Scandal at John Hancock

Masters of Deception, Part 3

In this final part of our series on John Hancock, we examine some of the relationships between members of the company's board of directors. An understanding of these relationships may provide insight into why David D'Alessandro—the Hancock CEO who oversaw the destruction of $1.8 billion in value—was paid about $100 million.

There are many reasons why CEOs serve as directors of large public corporations. They can gain valuable knowledge which helps them serve their own shareholders and constituents more effectively. Being a director is a great responsibility, but America's CEOs understand that the business of America is business. What's good for CEOs is good for America. And it's good for America when CEOs sit down behind closed doors and conspire—make that *talk*—with one another as outside directors of leading corporations. It makes corporations more efficient, enhances America's competitive position, and improves society. Doesn't it?

Being an outside director of a large corporation has benefits. Directors get to hobnob with others who run big companies. They gain power and influence. They may even have a say in how corporate funds get doled out to charitable organizations. And they decide how much to pay the CEOs of the companies on whose boards they sit. (Since many directors are CEOs themselves, they tend to be generous.)

In addition to these spiritual benefits, there are tangible rewards. Directors are often compensated handsomely. At John Hancock—to pick a company at random—Richard Syron, chairman of the board's compensation committee, was paid about $160,000 last year—not including any retirement benefits, perks, or emoluments he may get now or in the future.

Corporate directors are old boys, and they're members of an old boys' club. According to The Corporate Library, which compiles all sorts of useful statistics about the directors of the 1,700 largest U.S. public companies, 90% of the directors are male. The average age of a director is 58.9 years. Twenty percent of directors serve on two boards (of the 1,700 largest companies), 8% serve on three, and 5.5% serve on four or more. A director's average tenure is 8.4 years. Thus a director who pulls down $160,000 per year from a board might expect to make more than $1.4 million from that board during his tenure.

Being a director is a steppingstone. Syron (who has been on Hancock's board since 1995) joined Thermo Electron's board as an outside director in 1997. In 1999 he was named CEO.

In general, directors are team players. If they're likely to cause a stir—even when necessary—they're unlikely to be asked onto a board. Ralph Nader, for example, will never be asked to serve on General Motors' board.

John Hancock's current board of directors looks like a typical corporate board. It consists of 12 men and one woman. For the most part, Hancock's directors are prominent and influential in Boston, Hancock's home. Their average age is 58.9 years—identical to the national average—and 11 of the 13 directors are, or have been, company presidents, CEOs, or COOs. (Two directors are practicing attorneys.)

Perhaps the most notable aspect of Hancock's board is something that's not apparent by reading the company's annual report or proxy statement: there are numerous connections, links, and financial relationships between many of the directors, and between them and Hancock. Many of these connections are not disclosed to Hancock's shareholders or policyholders.

The fact that Hancock's financial performance for its owners has been appalling (see *Schiff's Insurance Observer*, July 18, October 23, and October 28) didn't preclude the board from lavishing compensation upon CEO D'Alessandro and his confederates. The relationships between many of Hancock's directors are so extensive that one must question whether these relationships have compromised the directors' integrity.

John Hancock's management and board have cut a swath of destruction through the company. The demutualization, in which policyholders were deceived and then cashed out for about 50% of fair value, cost policyholder-owners $1.8 billion. The issuance of 102,000,000 shares in an IPO priced at $17 per share—when the directors were apparently aware that Hancock's full value was approximately double that—was an example of: (a) idiocy, (b) negligence, (c) breach of fiduciary duty, or (d) all of the above. (Take your pick.)

Although Hancock's management has failed to create any value whatsoever (the company was worth about $35 per share in 1999, and it is still worth about that), D'Alessandro has received about $100 million—much more than his peers—and other Hancock executives have received tens of millions. Furthermore, some of D'Alessandro's compensation appears to be an outright violation of Massachusetts' demutualization statute, which prohibits officers from being compensated for aiding, promoting, or assisting in a mutual conversion.

As we've shown in previous issues, Hancock's internal documents reveal that the company's directors had material information about Hancock's value that wasn't given to policyholders or shareholders. Although the directors knew, or should have known, that no value was created (and that $1.8 billion of value was destroyed), they rewarded D'Alessandro with stock, options, loans, and other forms of value. In addition, some of the directors purchased stock for themselves while they knew, or should have known, that the company's true value was much higher than the market price.

Because Hancock's results have been dreadful—and many of its directors have close connections with Hancock, D'Alessandro, and other Hancock directors—one should ask whether a truly independent board in which the directors weren't so intertwined would have behaved in the same fashion.

Let's follow some connections between Hancock's directors. David D'Alessandro, Hancock's infamous CEO, was a director of Westvaco. So was Hancock director (and Cabot Corporation CEO) Samuel Bodman. Bodman was also a director of Thermo Electron, whose chief honcho, Richard Syron, is a director of Hancock. Syron used to be CEO of the Federal Reserve Bank of Boston, of which former Hancock CEO Stephen Brown was a director. Brown recently joined the board of Ionics, of which former Hancock director Kathleen Foley Feldstein is a director.

These sorts of connections abound at Hancock. For example, four Hancock directors—Wayne Budd, John M. Connors, Jr., Robert Popeo, and Richard Syron were trustees of Boston College. (Connors and Syron both did stints as chairman.) D'Alessandro was a trustee of Boston University, as was Hancock director Richard DeWolfe. DeWolfe was chairman and CEO of the DeWolfe Companies, of which Robert Popeo was a director.

The *Boston Business Forward* published a list of the 40 most powerful people "who really pull the strings" in Boston. Popeo, chairman of the law firm Mintz, Levin, Cohen Ferris, Glovsky and Popeo, was ranked number nine. (D'Alessandro was number one.) Those who want to assess Popeo's independence as a Hancock director may choose to consider the fact that Mintz, Levin is one the law firms that Hancock uses. (Hancock's proxy doesn't disclose how much Mintz, Levin was paid.)

A couple of years ago, Popeo was asked by the *Boston Business Forward* to name the most powerful person in Boston. "There are people in this town who interrelate," he said, "and in combination they can accomplish a great deal in this town." When Popeo was asked to name these powerful "people," he responded, "There's Dave D'Alessandro. There is Jack [John M.] Connors..."

The *Boston Business Forward* ranked Connors as the second most powerful person in Boston. He's certainly one of Hancock's most *connected* directors. For example, he's chairman of Partners HealthCare System. D'Alessandro is also a director, and Hancock director Thomas P. Glynn is Partners' COO. (Partners has established a "research collaboration" with Thermo Electron, which is headed by Hancock director Richard Syron.)

Partners is a client of John Connors' advertising agency, Hill, Holliday, Connors, Cosmopulos. Other clients of the firm include John Hancock, Thermo Electron (Syron's company), and Verizon Communications. Wayne Budd, who is a director of Hancock (as well as its EVP and general counsel), was group president of Verizon until he went to work at Hancock a few years ago.

As the chart on the next page shows, Connors has connections with at least half of Hancock's directors *outside* of his relationships as a director of Hancock. For example: he was a director of Lycos, of which Hancock director Robert J. Davis was CEO.

According to the *Boston Business Forward*, D'Alessandro and Connors are buddies. "There are no two closer guys in town," wrote the *Forward*, quoting an unnamed source. "If you tell one of them something, the other hears it in five minutes. They're the Bobbsey Twins."

It must be comforting for D'Alessandro to have a pal like Connors on Hancock's board. It seems unlikely that the head of Hancock's advertising agency would object to paying D'Alessandro $100 million (even though he did a miserable job that cost the company's owners $1.8 billion). For that matter, Hancock's lawyers, Robert Popeo of Mintz, Levin and Robert Fast of Hale and Dorr—both of whom are on Hancock's board—also appear unlikely to object to D'Alessandro's compensation.

Hill, Holliday, Connors has been Hancock's advertising agency for many years. D'Alessandro, who is a marketing and advertising "guru," mentioned the creative work done by the firm in his book, *Brand Warfare*. That was thoughtful of him.

It was not thoughtful of Hancock, however, to fail to tell its shareholders that Hill, Holliday, Connors has an important financial relationship with Hancock. Securities regulations require companies to disclose, in a section of the proxy statement entitled "Certain Relationships and Related Transactions," material financial transactions involving directors, directors' companies, and directors' "immediate family." (We'll return to this last item later.)

continued

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Certain Relationships: Connections between Hancock, D'Alessandro, and Hancock's Directors

John Hancock's proxy statement does not provide complete information about its directors and their connections with each other and with Hancock. The chart below—which does not purport to be complete—shows some of the connections between 11 of Hancock's 13 current directors, and five of its past directors.

When the word "client," "creditor," etc. appears, it means that the corresponding company is a client etc. of the corresponding director's company, or of the director. Some of the connections listed are in the past. (For example, Stephen Brown was on the board of the Federal Reserve Bank of Boston when Richard Syron was its CEO. John Connors was a director of Lycos when Robert Davis was its CEO.)

Many of these connections have not been disclosed to Hancock's shareholders.

The chart on the next page shows these directors' occupations.

	Boston College	Boston University	Dennison Mfg	DeWolfe Cos.	Fed Reserve Bank of Boston	Gillette	Ionics	John Hancock	Lycos	New England Electric	Partners HealthCare	Thermo Electron	Verizon	Westvaco	Woods Hole Oceanographic Institution
D'Alessandro		Trustee						CEO			Director			Director	
Bodman *												Director		Director	
Bok *			Director							Chairman					Trustee
Brown *					Director		Director	Retired CEO							
Budd	Trustee							EVP					Group President		
Connors	Chairman							Client	Director		Chairman/ Client	Client	Client		
Davis									CEO						
DeWolfe		Trustee		CEO											
Fast								Client	Client	Client		Client			
Feldstein *							Director								
Gifford *			CEO												
Glynn											COO	Joint venture			
Hawley						CEO									
McHale								Creditor							
Popeo	Trustee			Director		Client		Client			Client	Client			
Syron	Chairman				CEO			Hired daughter			Joint venture	CEO			Trustee

* Former director

Hancock's proxy statement does disclose some relationships: (1) That it owns $46.8 million of senior unsecured notes of which Discovery Communications is the obligor. (Hancock director Judith McHale is the president of Discovery.) (2) That it used the law firms Mintz, Levin and Hale and Dorr. (The firms with which directors Popeo and Fast are affiliated.) (3) That Boston Properties, whose CEO Edward Linde is a Hancock director, assumed a $150 million mortgage made by Hancock "in the ordinary course of business."

Hancock's proxy statement *did not disclose* that it paid Hill, Holliday, Connors $21,339,772 for "Advertising/Promotion" services in 2002. (*Schiff's* uncovered this figure in an insurance department filingmade by Hancock.)

As we've mentioned in previous articles, D'Alessandro and many of Hancock's directors have been sued for breach of fiduciary duty and other unsavory acts in connection with excessive and allegedly illegal compensation to D'Alessandro and other insiders. While we don't know if the plaintiff will prevail, we hold a compatible view: that Hancock's myriad transactions were grubby, unsavory, duplicitous, sordid, contemptible, unscrupulous, sleazy, and nefarious. Whether a court will find such behavior to be illegal remains to be seen.

In a motion to dismiss the lawsuit, the defendants make numerous arguments. For example, they state that "a plaintiff must plead specifically that a majority of the board of directors was 'interested' and not 'independent...'" As shown above, a majority of Hancock's directors don't pass the smell test for independence.

The defendants also argue that "where outside directors (such as Hancock's Compensation Committee) determine executive compensation *from which they derive no financial benefit* [emphasis added], these directors are inherently *dis*interested in that transaction..." Hancock's directors have, however, received all sorts of financial benefits, including money, stock, options, fees for legal and advertising services, loans, connections, and power.

The defendants also argue that the plaintiff has not established "that any outside director on the Compensation Committee had a financial interest in [D'Alessandro's or other executives'] compensation or was 'materially dependant' on the executives' 'good graces.'"

We won't try to define "materially dependant" and "good graces" in legal terms, but we know what they mean in English. Many of Hancock's so-called "independent" directors had a variety of relationships and connections with Hancock and with other Hancock directors that were outside their roles as directors. They're connected through boards, advertising and legal fees, and other means. They're part of an amorphous, unofficial society.

Let's not forget the fact that Hancock cost its policyholder-owners $1.8 billion and didn't created value for shareholders, yet the board paid D'Alessandro $100 million. If Hancock's directors were so independent and unconnected, why did they dole out so much of other people's money for such poor results?

The defendants argue that the plain-

John Hancock Financial Services' Connected Directors

Occupation of John Hancock's "connected" directors. (In some cases we have listed the former occupation.)

Name	Company	Title
David D'Alessandro	John Hancock Financial Services	Chairman & CEO
Stephen Brown	John Hancock Financial Services	Former Chairman & CEO
Samuel Bodman	Cabot Corporation	Chairman & CEO
Joan T. Bok	New England Electric System	Chairman
Wayne Budd	John Hancock; Verizon	EVP; Group President
John M. Connors, Jr.	Hill, Holliday, Connors, Cosmopulos	Chairman & CEO
Robert J. Davis	Highland Capital; Lycos	Partner; CEO
Richard DeWolfe	DeWolfe Companies	Chairman & CEO
Robert E. Fast	Hale and Dorr	Of Counsel, Former Sr. Partner
Kathleen Foley Feldstein	Economics Studies, Inc.	President
Nelson S. Gifford	Fleetwing Capital; Dennison Manufacturing	Principal; CEO
Thomas P. Glynn	Partners HealthCare System	COO
Michael Hawley	Gillette	Chairman & CEO
Judith McHale	Discovery Communications	President & COO
Robert Popeo	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo	Chairman
Richard Syron	Thermo Electron	Executive Chairman, CEO

tiff hasn't established that any outside director had a financial interest in the executives' compensation. That raises the subject of Richard Syron, chairman of Hancock's three-person compensation committee. In 2002, when Hancock was a couple of years into paying D'Alessandro far more than he deserved, Syron's daughter, who had just graduated from college, was hired by Hancock (and is an associate in its Bond and Corporate Finance Group).

The issue at hand is not Ms. Syron's conduct or nepotism *per se*, but the conduct of Hancock's board and of Richard Syron, who as chairman of Hancock's compensation committee is supposed to be an *independent* director.

Was Ms. Syron's employment a *quid pro quo* for Mr. Syron's generosity as chairman of Hancock's compensation committee? That Mr. Syron's daughter got a job at Hancock—out of all the companies in the world—is notable because of the unusual amount of compensation that Hancock's board has bestowed upon D'Alessandro, and for Mr. Syron's specious justifications for that compensation.

Ms. Syron's job was not disclosed in Hancock's proxy statement.

In May 2000, Richard Syron was the commencement speaker at Bryant College (and the recipient of an honorary Doctor of Business Administration degree). *The Providence Journal* covered his address:

> Under gray, scudding clouds, Bryant College yesterday handed diplomas to 137 graduate students in such fields as accounting, business administration, and taxation.
>
> The commencement speaker, Richard F. Syron, president of Thermo Electron Corp. of Waltham, Mass., advised the graduates: "Don't get seduced. It's not all about money."
>
> Syron added, "Don't get me wrong; money is important. What's the line? 'I've been rich and I've been poor and believe me, rich is better...'"

On that gray day with mist hanging in the air, Syron told young graduates that "we must figure out a way so that public service is not synonymous with personal sacrifice, so that working for personal gain is not more prestigious than working for the public good, so that more...Bryant grads will choose teaching, government, or social work over Wall Street."

There are no teachers or social workers on Hancock's board. Thermo Electron's board includes one professor.

Undoubtedly, Hancock's directors will deny that there were any links between their fees, other directorships, loans, and jobs and the extreme compensation that they granted to Hancock's insiders.

The deceptive financial transactions that cost Hancock's policyholder-owners $1.8 billion are a matter of public record, however. Hancock's directors were supposed to do what was best for Hancock's policyholders and shareholders. For a variety of reasons, they have not. ■